



Comprehensive Annual Financial Report

*For Fiscal Year
Ended June 30, 2006*



Missouri State Lottery Commission
A Component Unit of the State of Missouri



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Prepared by Financial Operations Division

Missouri State Lottery Commission

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Introductory Section

More than \$2.7 billion in Lottery profits for the state of Missouri and public education



In fiscal year 2006, the Missouri Lottery generated more than \$260 million for public education programs, provided funds for programs such as the Early-Grade Literacy Program and Information Technology Services.



December 8, 2006

To: Barbara H. Pickering, Chair Missouri State Lottery Commission
Charles Larry Ray, Member
Sherri Robins, Member
Barbara Tiedt, Member
Celeste Witzel, Member
Larry P. Jansen, Executive Director
Citizens of the State of Missouri

Introduction

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Missouri State Lottery Commission (MLC) for the fiscal year ended June 30, 2006. MLC management is responsible for the accuracy of the financial data and the completeness of the information and disclosures within this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the MLC. All disclosures necessary to enable the reader to gain an understanding of the MLC's financial activities have been included.

The MLC is a component unit of the State of Missouri and is included in the State's Comprehensive Annual Financial Report. This report presents the activity of the MLC as a single enterprise fund and does not include information related to any other state agency or fund.

The Comprehensive Annual Financial Report presents an overview of the Missouri State Lottery Commission. The report format follows formal standards of the Government Finance Officers Association. Government organizations that publish this type of report can be compared to each other as similar kinds of information are included in the following sections.

Introductory Section - includes this transmittal letter describing the MLC and its business activities, the Certificate of Achievement for Excellence in Financial Reporting awarded for the previous fiscal year and an organizational chart denoting principal officials. This section is not audited because it contains subjective information.

Financial Section - includes the Independent Auditor's Report, management's discussion and analysis, the comparative basic financial statements of the MLC and the related notes to the financial statements.

Statistical Section - contains selected financial, demographic and industry data and information. This information has not been audited.

Supplementary Information Section - includes a report on compliance and internal control.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MLC's MD&A can be found immediately following the report of the independent auditors.

The MLC was created by the passage of a constitutional amendment on November 6, 1984 by the citizens of the State of Missouri. Ticket sales began January 20, 1986, with the introduction of a single scratch-off game, Jackpot 86. This represented the first legislatively authorized lottery tickets sold in Missouri since the New Franklin Railroad Lottery (later known as the Missouri State Lottery) was closed down in 1877.

The MLC is a Type III division assigned to the Missouri Department of Revenue as defined in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision, or authority over the actions or decisions of the MLC. The Commission consists of five members appointed by the Governor with the advice and consent of the Senate.

Products

The MLC currently offers the following games for players to choose from:

Scratcher Games are provided through a contract with Scientific Games Inc. that provides game design consultation, printing, and electronic validation information for prize payment. These games are played by scratching a latex coating to reveal the play area of the ticket. There are different ways to win including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. These play styles are combined with a variety

of game themes and price points. If the specified condition occurs the ticket is an instant winner. These games were the first offered by the MLC and continue to represent over 50% of our total annual ticket sales.

On-line games are provided through a contract with GTECH Corporation that maintains selling terminals at retail locations and a central processing system. These games are played by purchasing a ticket from a retailer through an on-line (computerized) selling terminal. These tickets are then held until a drawing is conducted by the MLC and witnessed by independent auditors to determine the winning numbers. Drawings are conducted twice a day or twice a week dependent upon the game. Pick 3, Pick 4, and SHOW ME 5 Paydown are drawn twice daily and are distinguished by their play styles, prize amounts, and odds of winning. Club Keno is an on-line game sold in age-controlled environments with drawings every 5 minutes. Players choose the number of “spots” they want to play that in turn determines the amount they may win. Missouri Lotto is drawn twice a week and offers a guaranteed minimum top prize of \$1 million paid over 25 years. The top prize grows for each draw that it is not won. Powerball is a lotto style game that offers a guaranteed minimum top prize of \$15 million paid out over 30 years. The Powerball game is offered in conjunction with 30 other jurisdictions through the Multi-State Lottery Association. Profits for all on-line games sold in Missouri stay in Missouri.

Pull-Tabs are provided through a contract with International Gānco, Inc. and are played by opening tabs on one side of the ticket to reveal rows of symbols under each tab. Prizes are won by matching symbols indicated on the front of the ticket. The retailer who sold the ticket pays most Pull-Tab prizes. The MLC has introduced pull-tab games with a top prize of \$1,000 that must be paid by the MLC.

Economic Outlook

For the fiscal year ended June 30, 2006, the MLC sales reached record levels. Sales increased by 16% from the prior year and were 15% above the previous record level in fiscal year 2004. The record sales level in fiscal year 2006 was driven by an approximate 18% increase in Scratcher Game sales and an approximate 32% increase in Powerball Game sales. The increase in Scratcher Games sales appear to reflect the effects of increasing the prizes of these games and introducing more higher price point games, as well the introduction of themed games. Increased Powerball Game sales were primarily the result of several large jackpots during the fiscal year, including the record \$365 million jackpot in February of 2006. The Powerball and Lotto game sales are driven by the size of the jackpot, and because of the number and amount of these jackpots exceeding expectations, sales were positively impacted for the fiscal year.

The economic outlook for the State of Missouri appears relatively stable for the near future. In general, moderate personal income growth is expected to support equal expectations in consumer spending. However, looking at the history of lottery sales both in Missouri and throughout the lottery industry, there does not seem to be a correlation between the state of the economy and lottery sales.

A stable economic environment, as well as maturity of traditional lottery products, decreasing promotional resources authorized by the appropriation process, competition from other forms of gambling, and additional demands on consumers’ discretionary funds should all contribute to an expected flat to moderate growth curve in product sales over the next twelve to eighteen months.

Accomplishments And Initiatives

During fiscal year 2006, the MLC achieved record sales, profits and efficiency. Lottery sales were \$913 million – an increase of 16 percent over the previous fiscal year – ranking Missouri number eight nationally in percentage increase in sales. During the same time period, Lottery profits for public education increased by 19 percent to \$261 million, while Lottery operating costs set a new record low of 3.9 percent – one of the lowest in the country. The MLC returned nearly \$573 million to players in cash and prizes and paid \$56 million to retailers in commissions and incentives.

On January 20, 2006, the MLC celebrated its 20th anniversary with a kickoff event at Lottery headquarters, the introduction of a special 20th Anniversary Dream Draw raffle game and numerous other activities throughout the year. During the past 20 years, the Lottery has sold more than \$8 billion in products, contributed more than \$2.7 billion to the state and public education, paid more than \$5 billion to players in prizes and more than \$550 million to retailers in commissions and incentives for selling Lottery products.

In addition to financial accomplishments, other noteworthy accomplishments during the fiscal year 2006 include:

- Larry Jansen became the MLC’s fourth executive director. Prior to becoming the executive director, Jansen served as the Controller of the MLC since 1986.
- The MLC introduced its first \$10 Scratchers “mega” game, “\$100 Million Cash Spectacular,” which offered more than \$102.5 million in prizes and the highest payout to date in a Scratchers game – 75.14 percent.
- The MLC contracted with the Center for the Study of Organizational Change at the University of Missouri to conduct a new long-range strategic planning process.
- The Lottery’s second “mega” game, “Lifetime Riches,” went on sale, offering the largest instant prize to date (\$50,000 a year for life) in the Lottery’s history and the highest payout ever (75.62 percent).

Financial Information

Accounting System and Policies:

The MLC uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized at the time the related liabilities are incurred.

Budgetary Controls:

The MLC annually submits a request for appropriation through the budgetary process of the State of Missouri. Expenditures of the MLC are subject to this appropriation process. The MLC does use interest earnings at the Multi-State Lottery Association (MUSL) to offset certain administrative and promotional expenses. The balance of these MUSL interest earnings is transferred to the Lottery Proceeds Fund.

Expenses associated with the operation of the MLC are submitted for payment through the Missouri Office of Administration, Division of Accounting. The MLC maintains its own signature authority for payment of prizes through an imprest checking account. The MLC has its own purchasing authority and has adopted the same rules and procedures as that of the Office of Administration, Division of Purchasing and Materials Management.

Debt Administration:

Long-term liabilities for multi-year prize winners are presented on the statement of net assets. The MLC holds US Treasury Strips in the name of prize winners for the purpose of funding these payments. The MLC does own some insurance annuities to fund prizes won prior to August 1990.

Cash Management:

A portion of the MLC's funds are maintained by the Office of State Treasurer and as such are pooled in short term investments until needed for cash payments.

Risk Management:

The MLC's major assets including buildings, data processing and other major equipment are insured by a third party carrier maintained by the Office of Risk Management. The MLC also maintains business interruption insurance. Liability indemnity for operation of the Lottery is managed through the State's Legal Defense Fund of the Office of Attorney General.

Internal Control Environment

Management of the MLC is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misappropriation. The internal control system is also designed to ensure that the accounting system provides accurate and timely financial information. The structure does not provide a guarantee but rather reasonable assurance that these objectives are met.

To enhance controls over accounting procedures, the MLC has segregated appropriate functions where feasible, and added additional administrative reviews of areas not clearly segregated to ensure compliance with established control policies.

Section 313.315 of the Missouri Revised Statutes requires the State Auditor to conduct a biennial audit of all accounts and transactions of the MLC, and such other special audits, as it may deem necessary. The MLC is also required to employ an independent firm of accountants to conduct an annual audit of all accounts and transactions of the MLC. This audit includes a review of internal controls as they relate to the expression of an opinion on the financial statements.

In addition, the MLC has from time to time employed the services of other qualified external firms to conduct reviews of our security procedures for data processing and controls with game operations.

Future Projects

The MLC's mission is to maximize revenues for Missouri public education. As such, the MLC is continually evaluating and exploring ways to enhance products as well as improving operational efficiencies and effectiveness. Major initiatives in 2007 and beyond include:

- Implementation of enhanced reporting and communication tools for the field staff. This project will ensure that the field staff has the most current data, information and tools to enhance productivity and service to the retailer network.
- Enhancements to the Club Keno product by introducing multiplier and progressive jackpot features.
- Implementation of the Club Games incentive program.
- Expanded use of themed products.
- Introduction of third \$10 Scratchers "mega" game.

Government Finance Officers Association Certificate Of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Missouri State Lottery Commission for its comprehensive

annual financial report for the fiscal year ended June 30, 2005. This was the sixth consecutive year that the MLC has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

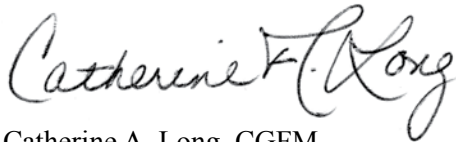
Acknowledgements

Preparation of this Comprehensive Annual Financial Report reflects our commitment to maintain the highest standards of public accountability. We reaffirm our commitment to continually improve our financial management and maintain the public's trust by exhibiting the highest ethical standards and uncompromising integrity. Publication of this report could not have been accomplished without the efficient and dedicated efforts of our employees, especially the accounting staff. We would also like to recognize Executive Director Larry Jansen, Commission Chair Barbara Pickering, Commissioners Larry Ray, Sherri Robins, Barbara Tiedt and Celeste Witzel for their support, guidance and dedication in operating the Missouri Lottery Commission in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael R. Lauf". The signature is fluid and cursive, with the first name "Michael" being the most prominent part.

Michael R. Lauf, CPA
Chief Financial Officer
Missouri State Lottery Commission

A handwritten signature in black ink that reads "Catherine A. Long". The signature is cursive, with the first name "Catherine" being the most prominent part.

Catherine A. Long, CGFM
Financial Accounting Manager
Missouri State Lottery Commission

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Missouri State Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



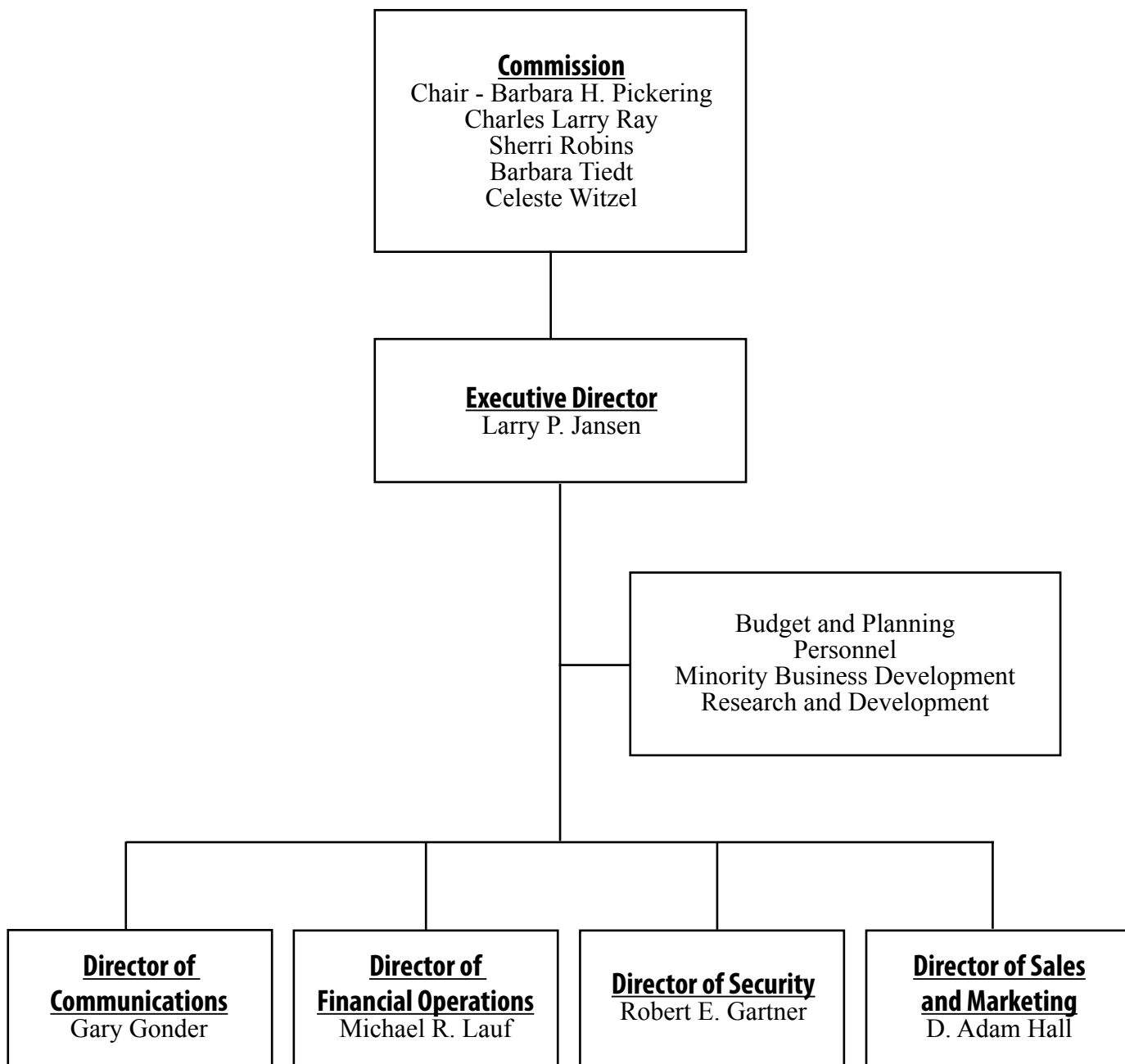
Carla E. Perry

President

Jeffrey R. Emer

Executive Director

Missouri State Lottery Commission
Principal Officials and Organization Chart
June 30, 2006



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Financial Section

More than \$5 billion returned to players in prizes



A group of 13 Missouri state employees, who worked for the Department of Social Services Family Support Division/Child Support Enforcement in Florissant, claimed the April 12, 2006, \$224.2 million Powerball jackpot, which is the largest prize ever won in the Missouri Lottery's history.

CH**& Co****COCHRAN, HEAD & CO., P.C.***Certified Public Accountants*

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INDEPENDENT AUDITOR'S REPORT

To the Missouri State Lottery Commission
Jefferson City, Missouri

We have audited the accompanying basic financial statements of the business-type activity of the Missouri State Lottery Commission (the Lottery), a component unit of the State of Missouri, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements present only the Missouri State Lottery Commission and do not purport to, and do not, present fairly the financial position of State of Missouri, as of June 30, 2006, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of the Missouri State Lottery Commission, as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2006, on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but rather is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

September 27, 2006



Management's Discussion And Analysis For The Fiscal Years Ended June 30, 2006 And 2005

This discussion and analysis of the Missouri State Lottery Commission's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Lottery's financial statements, which begin on page 8. These financial statements reflect only activities of the Missouri State Lottery Commission (MLC), a component unit of the State of Missouri.

Using This Annual Report

This annual report consists of a set of financial statements. The Statement of Net Assets provides information about the MLC assets and liabilities and reflects the MLC financial position as of June 30, 2006 and 2005. The Statement of Revenues, Expenses and Changes in Fund Net Assets reports the activity of selling lottery products and expenses related to such activity for the years ended June 30, 2006 and 2005. The Statement of Cash Flows outlines the cash inflows and outflows related to the activity of selling lottery products for the years ended June 30, 2006 and 2005.

MLC Net Assets

	As of June 30, 2006	As of June 30, 2005	As of June 30, 2004
Assets			
Current assets	\$69,152,265	\$63,475,906	\$62,820,908
Noncurrent assets:			
Capital assets	3,068,609	3,295,311	4,151,722
Other noncurrent assets	66,558,437	79,296,246	74,824,261
Total noncurrent assets	69,627,046	82,591,557	78,975,983
Total assets	138,779,311	146,067,463	141,796,891
Liabilities			
Current liabilities	68,598,856	63,585,194	63,253,674
Long-term liabilities	66,237,970	72,158,873	69,260,724
Total liabilities	134,836,826	135,744,067	132,514,398
Net Assets			
Invested in capital assets	3,068,609	3,295,311	4,151,722
Unrestricted	(3,068,609)	(3,295,311)	(4,151,722)
Restricted	3,942,486	10,323,396	9,282,493
Total net assets	\$3,942,486	\$10,323,396	\$9,282,493

The MLC current assets consist primarily of cash and cash equivalents with the State Treasurer, accounts receivable from ticket sellers and investments held on behalf of grand-prize winners (current portion). Capital assets consist of land, buildings, vehicles, computers and other equipment. Other noncurrent assets consist primarily of investments held on behalf of grand-prize winners (noncurrent). Current liabilities consist primarily of accrued prizes payable, the amount due the Lottery Proceeds Fund, and general accounts payable to suppliers. Long-term liabilities include the long-term portion of amounts payable to grand-prize winners. Net assets invested in capital assets are unrestricted. Net assets restricted for unrealized gains on investments held for grand-prize winners are presented in compliance with GASB 31 and represent the net market value adjustment of investments held to maturity.

MLC Changes in Net Assets

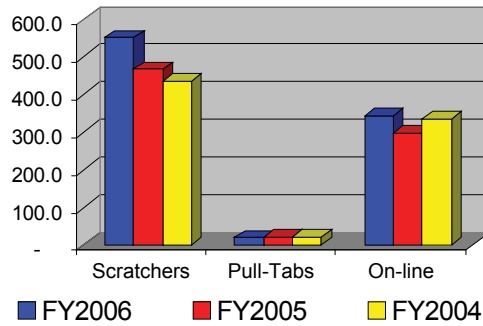
	For the Year Ended June 30, 2006	For the Year Ended June 30, 2005	For the Year Ended June 30, 2004
Operating revenues			
On-line ticket sales	\$343,402,242	\$297,540,450	\$334,515,765
Scratchers ticket sales	550,961,109	467,326,093	434,791,673
Pull-Tab ticket sales	19,154,900	20,731,089	21,846,920
Other operating revenues	167,767	340,957	638,392
Total operating revenues	<u>913,686,018</u>	<u>785,938,589</u>	<u>791,792,750</u>
Nonoperating revenues	<u>12,867,438</u>	<u>14,702,347</u>	<u>12,753,862</u>
Total revenues	<u>926,553,456</u>	<u>800,640,936</u>	<u>804,546,612</u>
Operating expenses			
Direct costs:			
Prize expense	572,767,960	487,925,882	484,827,462
Retailer commissions and incentives	56,543,150	48,798,722	49,316,766
Other direct costs	16,282,739	17,543,004	18,341,746
Total direct costs	<u>645,593,849</u>	<u>554,267,608</u>	<u>552,485,974</u>
Administrative expenses	20,290,872	21,430,609	22,619,483
Total operating expenses	<u>665,884,721</u>	<u>575,698,217</u>	<u>575,105,457</u>
Nonoperating expenses			
Transfers to the State of Missouri	260,668,734	218,642,710	229,427,183
Other nonoperating expenses	6,380,911	5,259,106	6,815,945
Total nonoperating expenses	<u>267,049,645</u>	<u>223,901,816</u>	<u>236,243,128</u>
Total expenses	<u>932,934,366</u>	<u>799,600,033</u>	<u>811,348,585</u>
Changes in net assets	<u>(\$6,380,910)</u>	<u>\$1,040,903</u>	<u>(\$6,801,973)</u>

Changes in net assets are the result of fluctuations in market yields which increase or reduce the unrealized gain on investments.

Operating Revenues:

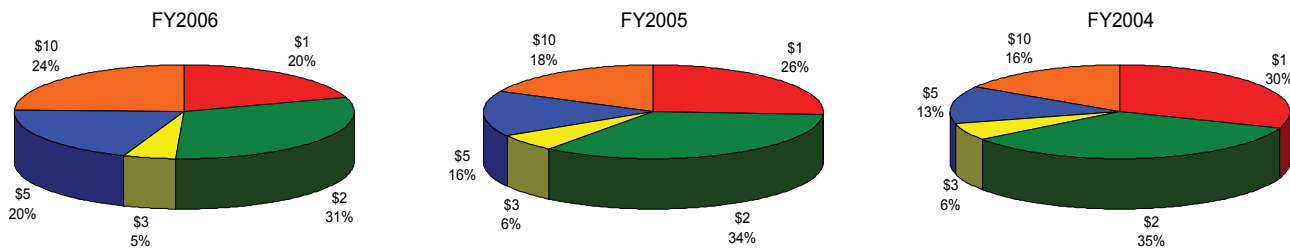
	2006	2005	2004
Sales by Game			
Scratchers	\$550,961,109	\$467,326,093	\$434,791,673
Pull-Tabs	19,154,900	20,731,089	21,846,920
Lotto	35,062,426	30,311,403	35,015,934
Pick 3	62,274,077	60,558,754	53,946,082
Pick 4	22,605,473	21,338,535	18,436,614
SHOW ME 5 Paydown	20,861,442	23,056,447	24,337,775
Club Keno	49,948,394	47,616,083	51,531,568
Powerball	151,772,839	114,485,380	147,232,847
Dream Draw	877,591	0	0
Xtra	0	173,848	4,014,945
Other	167,767	340,957	638,392

Lottery Sales By Product in millions



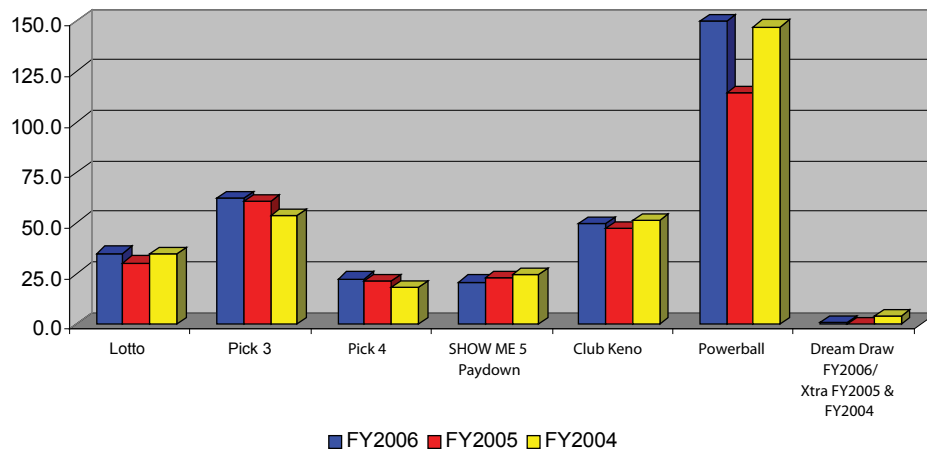
Revenues from the sale of lottery products were the highest in the 21-year history of the MLC. As indicated in the financial statements, Scratchers tickets led the way to this record sales level. The MLC has made a significant investment in increasing prizes and introducing more \$2, \$5 and \$10 tickets, including the introduction of \$5 poker-themed games and \$10 mega games with large jackpot and multi-year prizes. The resulting increase in the ratio of sales for higher price-point games continues to lead to overall sales increases in Scratchers ticket sales.

Scratchers Ticket Sales By Price Point



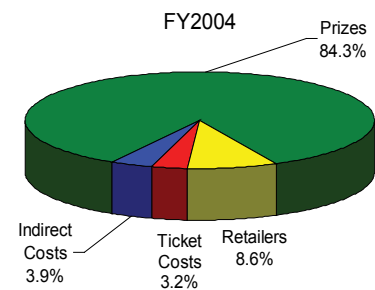
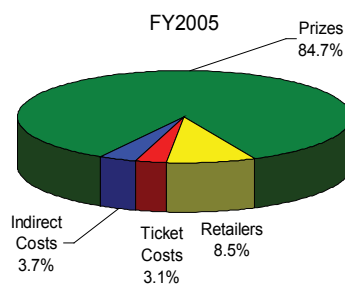
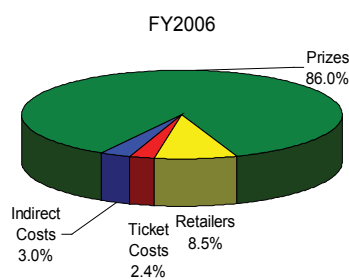
The on-line sales increase in fiscal year 2006 was due primarily to an increase in sales of the Powerball game. Several large jackpots during fiscal year 2006 contributed to record sales for this game as sales are driven by high jackpot amounts. Lotto sales were also higher in fiscal year 2006 due to two large jackpots that drove sales for that year. While high-level jackpots accounted for previous record sales levels in fiscal year 2004, there were no comparable jackpots in fiscal year 2005. Sales for the Pick 3 and Pick 4 games continued to increase in fiscal year 2006 after the addition of a second daily draw in fiscal year 2005. Club Keno sales increased in fiscal year 2006 following a decline in sales in fiscal year 2005 and SHOW ME 5 Paydown sales continued a declining sales trend that started in fiscal year 2005. Pull-Tabs, which are sold in the same market environment as Club Keno, experienced declines in sales in both fiscal year 2006 and fiscal year 2005.

On-line Sales By Game in millions



Operating Expenses

	2006	2005	2004
Game-related			
Prizes	\$572,767,960	\$487,925,882	\$484,827,462
Retailer commissions and incentives	56,543,150	48,798,722	49,316,766
Tickets	7,427,625	7,431,856	7,016,196
On-line vendor fees	8,855,114	10,111,148	11,325,550
Non-game-related			
Advertising	2,107,347	2,110,182	3,048,387
Wages and benefits	8,885,702	9,086,615	8,505,183
Other general expenses	9,297,823	10,233,812	11,065,913



Of the MLC total operating expenses of \$665.8 million in fiscal year 2006, \$645.5 million, or 97.0 percent, are game-related, or direct, expenses. In fiscal year 2005, direct expenses were \$554.3 million, or 96.3 percent, of the total \$575.7 million total operating expenses for the year. In fiscal year 2004, direct expenses were 96.1 percent, of total operating expenses. Direct expenses increased in fiscal year 2006 and fiscal year 2005 due to a continued increase in the aggregate prize expense as a percentage of Scratchers ticket sales, as discussed above. In fiscal year 2006 increased product sales resulted in additional increase in direct expenses.

Non-Operating Revenues (Expenses)

	2006	2005	2004
Interest	\$1,459,617	\$571,049	\$470,448
Unclaimed prizes	11,392,679	7,811,413	12,283,414
Net increase (decrease) in investments held	(1,424,646)	6,300,009	(1,546,223)
Amortization of grand-prize winner liability	(4,956,265)	(5,259,106)	(5,255,750)
Gain (loss) on capital asset disposal	15,142	19,876	(13,972)
Transfers to State of Missouri	(260,668,734)	(218,642,710)	(229,427,183)

The MLC retains prize money if a claim for the prize is not made within a specified time. During fiscal year 2003 this claim period was shortened from one year to 180 days. This change caused an increase in unclaimed prize amounts in fiscal year 2003 and a continued residual effect in fiscal year 2004 as the full effect of the change took place over a one year period. Unclaimed prize amounts in fiscal year 2005 returned to levels comparable to fiscal year 2002. In fiscal year 2006, in an effort to reduce the number of Scratchers games available for sale, the MLC closed twenty additional Scratchers games resulting in increased unclaimed prize amounts.

The net increase (decrease) in investments held for grand-prize winners represents the net market value change as required to be reported per GASB 31. Amortization of the grand-prize winner liability represents the accretion of interest to the securities held to maturity to fund the grand-prize winner payments.

All net proceeds are transferred to the Lottery Proceeds Fund for Education. Net proceeds for fiscal year 2006 increased 42.0 million, or 19.2 percent, from fiscal year 2004. For fiscal year 2005, proceeds decreased 10.8 million, or 4.7 percent, from fiscal year 2004. The governor's office and the legislature determine where these funds will be expended within the state's public institutions of elementary, secondary and higher education. The Missouri

Department of Elementary and Secondary Education was appropriated \$152.1 million in fiscal year 2006 and \$143.9 million in fiscal year 2005, and the Missouri Department of Higher Education received \$81.0 million in fiscal year 2006 and \$76.4 million in fiscal year 2005.

Capital Assets and Long-Term Debt

The MLC capital assets consist of land, buildings, vehicles, computers and other equipment. Capital assets decreased in fiscal years 2006 and 2005 because depreciation expense was greater than capital asset acquisitions. Capital assets are not a significant part of MLC total assets. Additional detailed information on capital assets may be found in note 6 to the financial statements.

The MLC has no long-term liabilities other than the long-term annuitized payments to lottery winners and deferred transfers to the State of Missouri. Additional detailed information on long-term liabilities may be found in note 11 to the financial statements.

Contacting MLC Financial Management

This management discussion and analysis report is designed to provide Missouri citizens, government officials, players, retailers and other interested parties with reliable financial information and an explanation of the MLC financial activities for the years ended June 30, 2006 and 2005. If you have questions about this report or need additional information, contact the Missouri State Lottery Commission, Financial Accounting Section, P.O. Box 1603, Jefferson City, Mo., 65109-1603.

Missouri State Lottery Commission
(A Component Unit of the State of Missouri)

Statements Of Net Assets As Of June 30, 2006 And 2005

	2006	2005
Current Assets:		
Cash and cash equivalents	\$ 21,955,708	\$ 11,264,524
Investments held for grand-prize winners at fair value	11,162,439	11,065,276
Accounts receivable, net of allowances for returns and doubtful accounts	34,906,672	39,853,800
Other receivable	1,001,886	567,321
Prepaid expense	125,560	724,985
Total current assets	69,152,265	63,475,906
Noncurrent Assets:		
Investments held for grand-prize winners at fair value	66,558,437	79,296,246
Capital assets:		
Capital assets not being depreciated	370,448	352,973
Capital assets	19,984,109	20,147,487
Accumulated depreciation	(17,285,948)	(17,205,149)
Total noncurrent assets	69,627,046	82,591,557
Total assets	138,779,311	146,067,463
Current Liabilities:		
Accounts payable	224,438	251,056
Due to Lottery Proceeds Fund	19,062,359	19,023,287
Accrued prize liabilities	34,801,570	30,207,044
Grand-prize winner liabilities	11,206,000	11,216,000
Other accrued liabilities	3,304,489	2,887,807
Total current liabilities	68,598,856	63,585,194
Long-term Liabilities:		
Due to Lottery Proceeds Fund - Deferred	3,665,579	3,336,747
Long-term grand-prize winner liabilities at present value	62,572,391	68,822,126
Total long-term liabilities	66,237,970	72,158,873
Total liabilities	134,836,826	135,744,067
Net Assets:		
Invested in capital assets	3,068,609	3,295,311
Unrestricted	(3,068,609)	(3,295,311)
Restricted through Constitutional provisions	3,942,486	10,323,396
Total net assets	\$ 3,942,486	\$ 10,323,396

The accompanying notes are an integral part of these financial statements.

Missouri State Lottery Commission
(A Component Unit of the State of Missouri)

**Statements Of Revenues, Expenses And Changes In Fund Net Assets
For The Years Ended June 30, 2006 And 2005**

	2006	2005
Operating Revenues:		
On-line ticket sales	\$ 343,402,242	\$ 297,540,450
Scratchers ticket sales	550,961,109	467,326,093
Pull-Tab ticket sales	19,154,900	20,731,089
Total sales	913,518,251	785,597,632
Other	167,767	340,957
Total operating revenues	913,686,018	785,938,589
Operating Expenses:		
On-line prize expense	185,416,764	162,322,731
Scratchers prize expense	375,179,476	312,477,552
Pull-Tab prize expense	12,171,720	13,125,599
On-line retailer commissions and incentives	19,880,652	17,212,524
Scratchers retailer commissions and incentives	35,399,461	30,272,992
Pull-Tab retailer commissions and incentives	1,263,037	1,313,206
Cost of tickets sold	16,282,739	17,543,004
Advertising	2,107,347	2,110,182
Wages and benefits	8,885,702	9,086,615
Other general and administrative	8,479,184	9,148,112
Depreciation and amortization	818,639	1,085,700
Total operating expenses	665,884,721	575,698,217
Operating income	247,801,297	210,240,372
Nonoperating Revenues (Expenses):		
Interest income	1,459,617	571,049
Unclaimed prizes	11,392,679	7,811,413
Net increase (decrease) in the fair value of investments held for grand-prize winners	(1,424,646)	6,300,009
Amortization of grand-prize winner liability	(4,956,265)	(5,259,106)
Gain (loss) on disposal of capital assets	15,142	19,876
Transfers to State of Missouri	(260,668,734)	(218,642,710)
Total nonoperating expense	(254,182,207)	(209,199,469)
Changes in net assets	(6,380,910)	1,040,903
Total Net Assets, Beginning Of Year	10,323,396	9,282,493
Total Net Assets, End Of Year	\$ 3,942,486	\$ 10,323,396

The accompanying notes are an integral part of these financial statements.

Missouri State Lottery Commission
(A Component Unit of the State of Missouri)

Statements Of Cash Flows
For The Years Ended June 30, 2006 And 2005

	2006	2005
Cash Flows From Operating Activities:		
Cash received from retailers and others	\$ 918,198,581	\$ 784,689,907
Cash paid for prizes	(567,996,755)	(491,659,191)
Cash paid for retailer commissions	(56,167,528)	(48,775,716)
Cash paid for employee services	(8,843,938)	(9,097,537)
Cash paid for other expenses	(26,297,167)	(29,596,702)
Net cash provided by operating activities	258,893,193	205,560,761
Cash Flows From Noncapital Financing Activities:		
Transfers to State of Missouri	(260,300,830)	(218,285,010)
Cash Flows From Capital And Related Financing Activities:		
Purchases of capital assets	(591,937)	(238,636)
Proceeds from sale of capital assets	15,141	29,223
Net cash used for capital and related financing activities	(576,796)	(209,413)
Cash Flows From Investing Activities:		
Proceeds from maturity of investments	11,216,000	10,584,000
Interest received	1,459,617	571,049
Net cash provided by investing activities	12,675,617	11,155,049
Net increase (decrease) in cash and cash equivalents	10,691,184	(1,778,613)
Cash And Cash Equivalents, Beginning Of Year	11,264,524	13,043,137
Cash And Cash Equivalents, End Of Year	<u>\$ 21,955,708</u>	<u>\$ 11,264,524</u>
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities:		
Operating income	\$ 247,801,297	\$ 210,240,372
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	818,639	1,085,700
Unclaimed prizes	11,392,679	7,811,413
Payments to grand-prize winners	(11,206,000)	(10,584,000)
Changes in operating assets and liabilities:		
Accounts receivable	4,947,128	(1,326,212)
Other receivable	(434,565)	77,530
Prepaid expense	599,425	(634,727)
Accounts payable and other accrued liabilities	390,064	(148,593)
Accrued prize liabilities	4,594,526	(960,722)
Net cash provided by operating activities	<u>\$ 258,903,193</u>	<u>\$ 205,560,761</u>
Non-cash Activities:		
Unrealized gains (losses) on investments held for grand-prize winners	\$ (1,424,656)	\$ 6,300,009
Amortization of long-term annuity prize liability	\$ 4,956,265	\$ 5,259,106

The accompanying notes are an integral part of these financial statements.

Missouri State Lottery Commission

(A Component Unit of the State of Missouri)

Notes To Basic Financial Statements

June 30, 2006 And 2005

1. Summary Of Significant Accounting Policies:

The Missouri State Lottery Commission (the Lottery) was created by the passage of a constitutional amendment on November 6, 1984 by the citizens of the State of Missouri. The Lottery is a Type III division assigned to the Missouri Department of Revenue as defined in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision or authority over the actions or decisions of the Lottery. The Commission consists of five members appointed by the Governor with the advice and consent of the Senate. The day-to-day operations are administered by the executive director and administrative staff as designated by the Commission. In accordance with Governmental Accounting Standards Board Statement No. 14, the Lottery, although a legally separate entity, is considered to be a component unit of the State of Missouri. This component unit provides services which exclusively, or almost exclusively, benefit the State of Missouri.

Basis of Presentation

The Lottery is accounted for as a proprietary-type enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges or where the periodic determination of net income is appropriate. In reporting its financial activities, the Lottery applies all applicable private sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Lottery has elected not to follow private sector guidance issued after this date.

Basis of Accounting

The financial statements of the Lottery have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The term "basis of accounting" refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. The term "measurement focus" refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with GAAP.

The Lottery distinguishes operating revenues and expenses from nonoperating items. The principal operating revenues of the Lottery primarily consist of sales from Scratchers, Pull-Tab and on-line tickets. Operating expenses primarily consist of payments to prize winners, commissions to retailer agents and payments to vendors and employees.

Revenue Recognition

Sales of on-line lottery tickets are generated by the semiweekly Lotto and Powerball games, and the daily Club Keno, SHOW ME 5 Paydown, Pick 4, Pick 3, Dream Draw and Xtra games. Sales of on-line lottery tickets are made through licensed retail sales outlets via on-line terminals maintained by the retailers. Ticket sales are recognized at the time the player purchases a ticket from the retailer.

Sales of Scratchers tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances of approximately \$1,896,000 and \$1,593,000 at June 30, 2006 and 2005, respectively, have been established for estimated tickets to be returned by retailers.

Sales of Pull-Tab lottery tickets are made to licensed retail sales outlets with no right of return. Ticket sales are recognized upon the sale of tickets to retailers and are valued at the sale price to the player.

Prizes

Expenses for on-line lottery ticket prizes are recorded based on a minimum of 45 percent of on-line lottery ticket sales. This amount is recognized and accrued as prize liability. Actual prizes paid are treated as a reduction of the prize liability.

Lotto grand-prize winners have the choice of receiving their prize in 25 annual installments or a portion of the prize in one lump-sum payment. Powerball grand-prize winners have the choice of receiving their prize in 30 annual installments or a portion of the prize in one lump-sum payment.

Expenses for Scratchers ticket prizes and Pull-Tab ticket prizes are recorded based upon the unique, predetermined prize structure for each game and are accrued as tickets are sold to the retailer.

Unclaimed Prizes

State statutes require that unclaimed prize monies be retained by the Lottery for the person entitled thereto for 180 days after the time the prize was awarded. If no claim is made for the prize within such time, the prize money reverts to the Lottery. Effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers to the Lottery Proceeds Fund all prizes that remain unclaimed. During the years ended June 30, 2006 and 2005, unclaimed prizes in the amount of approximately \$11,400,000 and \$7,800,000, respectively, were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2006 and 2005, this amount has been included as nonoperating revenue on the statements of revenues, expenses and changes in fund net assets with a corresponding amount included as a transfer to State of Missouri.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents consist of cash in banks, repurchase agreements and funds on deposit with the State Treasurer. The Lottery considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments Held for Grand-Prize Winners

Since March 1990, the Lottery has purchased U.S. Treasury zero coupon bonds to fund future payments under grand-prize winner prize claims. The maturities of these bonds approximate deferred grand-prize annuity installment amounts and due dates. The securities purchased are held in the Lottery's name in safekeeping by the Federal Reserve Bank in a separate account. The investments in these securities are carried at fair value.

Retailer Fees

Licensed retailers are charged a fee for the right to sell lottery tickets. Additionally, certain retailers pay an annual fee in lieu of obtaining an insurance bond. Such fees are used to offset uncollectable accounts receivable from retailers. The Lottery has not established an allowance for bad debt as this amount has been determined to be immaterial to the accounts receivable balance.

Capital Assets

Property and equipment greater than \$1,000 are carried at cost, less accumulated depreciation. Property and equipment received as settlement for liquidated damages are recorded at fair value on the date received. Depreciation is computed on the straight-line method over the estimated lives of the related assets, which range from three to fifteen years for autos, computers, equipment, and other assets and nineteen years for buildings. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in nonoperating revenues and expenses for the period.

Net Assets

Restricted net assets represent the unrealized gains or losses on investments held for grand-prize winners. GASB Statement No. 31 requires that certain investments be reported at fair value with gains and losses reflected in the statement of operations. As required by the Missouri Constitution and state statutes, the Lottery uses investments only to fund its annuity prize obligations and intends to hold the investments to maturity. Market gains or losses represent temporary fluctuations and are not recognized in the calculation of the amounts due to the Lottery Proceeds Fund.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Due to Lottery Proceeds Fund

All income before transfers of the Lottery, except for the net increase in the fair value of investments held for grand-prize winners and amortization of grand-prize winner liabilities, as described in the accompanying statements of revenues, expenses and changes in fund net assets, accrues to the benefit of the State of Missouri. Transfers are made to the Lottery Proceeds Fund, which shall be appropriated by the State solely for the institutions of public elementary, secondary and higher education.

Transfers are made monthly and are based on estimated net income before transfers. A portion of the liability to the Lottery Proceeds Fund, equal to the net book value of capital additions after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association, is deferred and is not subject to current transfers.

Compensated Absences

Under the terms of the Lottery's personnel policy, employees are granted vacation and sick leave in varying amounts, based upon length of service. In the event of termination or separation, an employee is generally paid for accumulated vacation up to 240 hours if in service for less than ten years; 288 hours for service between ten and fifteen years; and 336 hours if service exceeds fifteen years. Accordingly, it is the Lottery's policy to record vacation pay as an expense as it is earned. The amount of earned but unused accumulated vacation is included as an accrued liability in the accompanying financial statements.

Retiring employees receive an additional month of credited service for every twenty-one days of accumulated sick leave on the date of termination. Credited service is used to calculate retirement benefits administered by the Missouri State Employees Retirement System. The amount of earned but unused sick leave has no material financial effect on the Lottery.

Risk Management

The Lottery's risk management activities for workers' compensation and unemployment are recorded in the Workers' Compensation Fund and the Employment Security Fund, funds of the State of Missouri. The Lottery reimburses these funds for actual disbursements made on the Lottery's account.

Employees are offered various health insurance coverage programs administered by the Missouri Consolidated Health Care Plan (MCHCP). The Lottery contributes a fixed monthly payment for each covered employee to MCHCP as appropriated by the General Assembly of the State of Missouri.

The Lottery's major assets including data processing equipment, buildings and business interruption are insured by a third-party carrier maintained by the Office of Risk Management.

There were no significant reductions in insurance coverage from the prior year. Insurance settlements did not exceed insurance coverage in the past three years.

Budgetary Authority

The Lottery annually submits a request for appropriation through the budgetary process of the State of Missouri. All expenses of the Lottery are subject to the State of Missouri appropriation process.

Reclassification

Certain prior year information was reclassified to conform to the current year presentation.

2. Statutory Requirements:

Missouri statutes provide that a minimum of 45 percent of the money received from the sale of lottery tickets shall be allocated to prizes. The costs of operating the Lottery, including all commissions to retailers, promotional costs, and all other administrative expenditures, are appropriated by the General Assembly of the State of Missouri.

The Lottery receives certain services for no charge from other Missouri state government agencies. Investigative services are provided by the Missouri State Highway Patrol. The Office of Administration provides certain services to process expenditures and payroll for the Lottery.

3. Cash And Cash Equivalents:

Cash, other than petty cash and the imprest fund, is part of the common cash pool in the State Treasury. The State of Missouri invests such cash in excess of what is necessary to meet current obligations. The fair value in the common cash pool is the same as the value of the pool shares. At June 30, 2006 and 2005, the Lottery's share in the State's common cash pool was \$14,355,628 and \$7,365,556, respectively. At June 30, 2006 and 2005, the book balance of the imprest fund was \$7,597,980 and \$3,896,867, respectively, and the bank balance was \$8,615,660 and \$4,447,647, respectively.

Collateral is required by state statutes for demand deposits and certificates of deposit. The fair value of collateral must equal 100 percent of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are governed by state statute and include U.S. government and U. S. agency bonds and securities, general obligation bonds of any of the fifty states, general obligation bonds of any Missouri county and certain cities and special districts, and revenue bonds of certain Missouri agencies. Written custodial agreements are required which provide, among other things, that the collateral be held separate from the assets of the custodial bank.

Custodial credit risk is the risk that, in the event of a bank failure, the Lottery's deposits may not be returned to it. The Lottery does not have a deposit policy for custodial credit risk. The Lottery's imprest fund was fully collateralized by FDIC insurance and pledged collateral at June 30, 2006 and 2005. Because the Lottery's share of the State's Treasury is a pooled investment, the balance of this account is not subject to custodial credit risk under GASB Statement No. 40.

4. Investments Held For Grand-Prize Winners:

As provided for by Article III, Section 39(b) of the Missouri Constitution, the Lottery purchases United States Treasury Zero Coupon Bonds for the specific purpose of funding future grand-prize winner prize claims. These investments are carried at fair value in the amounts of \$77,720,876 and \$90,361,522 at June 30, 2006 and 2005, respectively. The maturity value of securities held at June 30, 2006 and 2005 was \$103,667,000 and \$114,883,000, respectively.

At June 30, 2006, the Lottery had the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
<u>Investments in prize annuities:</u>					
United States Treasury					
Zero Coupon Bonds	<u>\$77,720,876</u>	<u>\$11,162,439</u>	<u>\$42,995,876</u>	<u>\$15,222,732</u>	<u>\$8,339,829</u>

Investments in prize annuities are subject to changes in fair value due to interest rate risk. However, to satisfy the annual installment obligations to prize winners, these bonds are held to maturity. The fair value at maturity is the face value of the bonds, regardless of the changes in value during the time that the investments are outstanding.

5. On-line Ticket Sales:

On-line ticket sales consist of the following:

	2006	2005
Powerball	\$151,772,839	\$114,485,380
Pick 3	62,274,077	60,558,754
Lotto	35,062,426	30,311,403
SHOW ME 5 Paydown	20,861,442	23,056,447
Pick 4	22,605,473	21,338,535
Club Keno	49,948,394	47,616,083
Dream Draw	877,591	0
Xtra	0	73,848
	<u>\$343,402,242</u>	<u>\$297,540,450</u>

6. Capital Assets:

The changes in capital assets consist of the following:

	June 30, 2005	Increases	Decreases	June 30, 2006
Capital assets not being depreciated:				
Land	\$ 352,973	\$ 0	\$ 0	\$ 352,973
Construction in progress	0	17,475	0	17,475
Total capital assets not being depreciated	<u>352,973</u>	<u>17,475</u>	<u>0</u>	<u>370,448</u>
Capital assets being depreciated:				
Buildings	4,355,297	85,711	0	4,441,008
Computers	4,064,857	205,165	230,048	4,039,974
Equipment	10,370,346	101,173	490,762	9,980,757
Automobiles	1,311,987	182,413	17,030	1,477,370
Other	45,000	0	0	45,000
Total capital assets being depreciated	<u>20,147,487</u>	<u>574,462</u>	<u>737,840</u>	<u>19,984,109</u>
Less accumulated depreciation for:				
Buildings	2,767,271	207,639	0	2,974,910
Computers	3,292,794	345,509	230,048	3,408,255
Equipment	9,981,306	133,817	490,762	9,624,361
Automobiles	1,148,955	130,174	17,030	1,262,099
Other	14,823	1,500	0	16,323
Total accumulated depreciation	<u>17,205,149</u>	<u>818,639</u>	<u>737,840</u>	<u>17,285,948</u>
Total capital assets being depreciated, net	<u>2,942,338</u>			<u>2,698,161</u>
Capital assets, net	<u>\$ 3,295,311</u>			<u>\$ 3,068,609</u>

	June 30, 2004	Increases	Decreases	June 30, 2005
Capital assets not being depreciated:				
Land	\$ 352,973	0	0	\$ 352,973
Construction in progress	0	0	0	0
Total capital assets not being depreciated	<u>352,973</u>	<u>0</u>	<u>0</u>	<u>352,973</u>
Capital assets being depreciated:				
Buildings	4,291,899	63,398	0	4,355,297
Computers	4,048,136	109,812	93,091	4,064,857
Equipment	10,828,470	45,160	503,284	10,370,346
Automobiles	1,467,230	20,266	175,509	1,311,987
Other	45,000	0	0	45,000
Total capital assets being depreciated	<u>20,680,735</u>	<u>238,636</u>	<u>771,884</u>	<u>20,147,487</u>
Less accumulated depreciation for:				
Buildings	2,546,820	220,451	0	2,767,271
Computers	2,935,362	449,459	92,027	3,292,794
Equipment	10,260,819	215,487	495,000	9,981,306
Automobiles	1,125,662	198,803	175,510	1,148,955
Other	13,323	1,500	0	14,823
Total accumulated depreciation	<u>16,881,986</u>	<u>1,085,700</u>	<u>762,537</u>	<u>17,205,149</u>
Total capital assets being depreciated, net	<u>3,798,749</u>			<u>2,942,338</u>
Capital assets, net	<u>\$ 4,151,722</u>			<u>\$ 3,295,311</u>

7. Pension Plan:

The Lottery participates in the Missouri State Employees' Retirement System (MOSERS) plan, a cost-sharing multiple employer defined benefit retirement plan covering all the employees of the State of Missouri. The plan is administered by the MOSERS Board of Trustees in accordance with Sections 104.010 and 104.312 to 104.800 of the Revised Statutes of Missouri. Substantially all full-time employees of the Lottery are covered by the plan. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: Missouri State Employees' Retirement System, 907 Wildwood Drive, P.O. Box 209, Jefferson City, Mo., 65102, or by calling (800) 827-1067.

The Plan provides retirement, death and disability benefits to its members. Benefits for state employees are fully vested after five years of credited service. Employees may retire on or after age 55 and may receive reduced benefits at an earlier retirement age. However, an employee may receive full benefits if they are at least age 48 and their combined age and service equal 80. The Plan cannot be terminated. The Lottery's full-time employees do not contribute to the Plan. The State of Missouri is required to make all contributions at an actuarially determined rate. The current rate of contribution for retirement and long-term disability is 12.59 percent and 0.51 percent of total payroll, respectively.

For fiscal years ended June 30, 2006, 2005, 2004 and 2003, the annual pension cost was approximately \$850,000, \$751,000, \$639,000, and \$602,000, respectively, and was equal to 100 percent of the annual pension cost required to be contributed for those years.

8. Leases:

Operating Leases

The Lottery's regional facilities are held under operating lease agreements through June 30, 2006, with renewal options available for one to three additional one-year periods. Annual rent expense for these facilities totaled approximately \$291,000 in both fiscal 2006 and 2005.

The Lottery leases ticket vending machines under operating lease agreements through June 30, 2006, with options available for additional one-year periods. Annual lease expense for these machines totaled approximately \$691,000 in both fiscal 2006 and 2005.

9. Contractual Arrangements:

The Lottery maintains contractual arrangements with providers of goods and services critical to the Lottery's operations. Significant contracts include an agreement with the provider of the Lottery's on-line game computer systems and agreements with producers of the Lottery's Scratchers and Pull-Tab games tickets, among others.

The contracts generally run for one year, with one-year renewals available at the option of the Lottery. The contracts require the Lottery to compensate vendors for goods and services that meet stated quality standards.

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 31 state and district lotteries (member lotteries) and operates the on-line Powerball game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for the Powerball game and remit 50 percent of sales to prize winners or to MUSL for payment of prizes. Member lotteries also fund MUSL's operating expenses based on allocations by MUSL.

Powerball grand-prize winners have the choice of receiving the prize in 30 annual installments or a portion of the prize in one lump-sum payment. Investment securities, with maturities that approximate all grand-prize winner payments due to winners of MUSL games, are maintained by MUSL. The investments and related prize liabilities for winners of these games from the state of Missouri are excluded from the accompanying financial statements. Future grand-prize winner payments of MUSL games due to winners in Missouri are approximately \$78,228,000 and \$84,954,000 as of June 30, 2006 and 2005, respectively.

The Lottery has contributed to a prize reserve fund and set prize reserve fund, separately maintained by MUSL, to protect MUSL members in case of unforeseen liabilities and to pay certain prizes associated with Powerball, respectively. With certain restrictions, these fund balances are refundable to member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2006 and 2005, the Lottery's portion of the prize reserve fund and set prize reserve fund was approximately \$4,861,000 and \$4,939,000, respectively, and \$1,435,000 and \$1,453,000, respectively. The Lottery has charged amounts placed into the prize reserve funds to prize expense as the related sales have occurred.

The Lottery has contributed to an account with MUSL which is used to pay certain operating expenses incurred by member lotteries for the Powerball game. With certain restrictions, the balances in this account are refundable to the member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2006 and 2005, the Lottery's portion of the balance of this account was approximately \$922,000 and \$522,000, respectively, and is reported as a receivable.

10. Amounts Held On Behalf Of Grand-Prize Winners Liability:

The Lottery has an implied contract to make future installment payments to grand-prize winners, and as such, recognizes this as amounts held on behalf of grand-prize winners. Amounts due to grand-prize winners are carried at the estimated present value of the prizes that will eventually be awarded. The present value of these payments at June 30, 2006 and 2005 was \$73,778,391 and \$80,038,126, respectively. This is funded with the maturing U.S. Treasury zero coupon bonds that are restricted for this purpose. The balances of these maturities at June 30, 2006, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 11,206,000
2008	11,206,000
2009	11,206,000
2010	10,868,000
2011	9,648,000
2012 through 2016	27,839,000
2017 through 2021	10,900,000
2022 through 2026	8,242,000
2027 through 2029	2,552,000
Total installment payments due	103,667,000
Less- Interest portion	29,888,609
	<u>\$ 73,778,391</u>

Prior to March 1990, the Lottery purchased annuity contracts in the name of the prize winners from selected insurance companies to fund the Lotto grand-prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying financial statements. The Lottery would assume liability for future payments if the insurance companies were to default on their payments. Future payments to be made to grand-prize winners by these insurance companies totaled approximately \$7,323,000 and \$12,651,000 at June 30, 2006 and 2005, respectively.

11. Long-Term Liabilities:

The changes in long-term liabilities consist of the following:

	June 30, 2005	Additions	Reductions	June 30, 2006	Current Portion
Due to Lottery Proceeds Fund	\$ 22,360,034	\$260,668,734	\$260,300,830	\$ 22,727,938	\$ 19,062,359
Grand-prize winner liabilities	80,038,126	4,956,265	11,216,000	73,778,391	11,206,000
Total	<u>\$102,398,160</u>	<u>\$265,624,999</u>	<u>\$271,516,830</u>	<u>\$ 96,506,329</u>	<u>\$ 30,268,359</u>

	June 30, 2004	Additions	Reductions	June 30, 2005	Current Portion
Due to Lottery Proceeds Fund	\$ 22,002,334	\$218,642,710	\$218,285,010	\$ 22,360,034	\$ 19,023,287
Grand-prize winner liabilities	76,056,842	14,565,284	10,584,000	80,038,126	11,216,000
Total	<u>\$ 98,059,176</u>	<u>\$233,207,994</u>	<u>\$228,869,010</u>	<u>\$102,398,160</u>	<u>\$ 30,239,287</u>

12. Contingencies:

There are claims and/or lawsuits to which the Lottery is a party as a result of matters arising in the ordinary course of business. The final outcome of any claim or lawsuit is not presently determinable. Management does not anticipate the resolution of these matters to have a materially adverse effect on the financial condition of the Lottery.

Statistical Section

(Unaudited)

More than \$500 million paid to Lottery retailers in commissions and incentives for selling Lottery products



In addition to Mike and Sue Palmer's \$5.5 Lotto jackpot prize, Casey's in Ste. Genevieve received a bonus equal to 1 percent of the jackpot - \$55,000 - for selling the winning Lotto ticket.

Missouri State Lottery Commission Statistical Information Section

This section of the Missouri State Lottery Commission's comprehensive annual financial report presents detailed information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing the Lottery's overall financial health.

Contents	Page
Financial Trends	29
These schedules contain trend information from the current year and prior years' comprehensive annual financial reports to help a reader understand how the Lottery's financial performance and position have changes over time.	
Revenue Capacity	36
These schedules contain information to help the reader assess factors affecting the Lottery's ability to generate sales of lottery tickets. Scratchers ticket game strategies, such as price points and launch schedules, affect the selection and availability of products for sale at retail locations. Information for on-line sales by game, included in the financial trends section, provides data about the various drawing based games that are available to the public. The Lottery's statewide retailer network determines the market exposure for Scratchers and on-line games.	
Demographic And Economic Information	39
These schedules contain demographic and economic indicators to help a reader understand the environment in which the Lottery operates.	
Operating Information	41
These schedules contain information about the Lottery's organizational structure, financial performance indicators compared to other lotteries in the United States and capital asset information.	

With the exception of information on retailers and sales for each region, statistical information is provided for the most recent ten years. In the future, data for this schedule will be accumulated and, in due course, the schedule will contain information for a ten-year period.

Financial Trends

Information for the Missouri State Lottery Commission for the last ten fiscal years, 1996 through 2006, is presented in the accompanying schedules and charts. The Missouri State Lottery Commission was created on November 6, 1984 by the passage of a constitutional amendment and began selling tickets in January 1986.

The following information is presented in the accompanying schedules and charts:

Revenue – includes sales, interest income, retailer fees and other income amounts. Interest income does not reflect interest from investments for Lotto payments.

Sales – reflects the face value of lottery tickets.

Retailer commission and incentives – includes the base commission and cashing, promotional and program incentive payments.

Prizes – reflects the liability incurred for payments to winners.

Ticket costs – includes the purchase cost of Scratchers and Pull-Tab tickets and payments to the on-line games service provider.

Administration – includes all operating expenses not included in prizes, retailer commissions and incentives or ticket costs.

Transfers to the State – reflects the transfer of net income, excluding unrealized gains on investments and amortization of grand-prize winner liability, to the Lottery Proceeds Fund for fiscal years 1997 through 2006. Transfers made during fiscal year 2006 include \$11,392,679 of unclaimed prizes. The Lottery Proceeds Fund is appropriated by the Missouri State General Assembly to the Department of Higher Education and the Department of Elementary and Secondary Education. Profits not yet transferred are shown on the balance sheet as a liability.

Expenses and transfers – includes prizes, retailer commissions and incentives, ticket costs and administration costs as described above, as well as transfers made to the state.

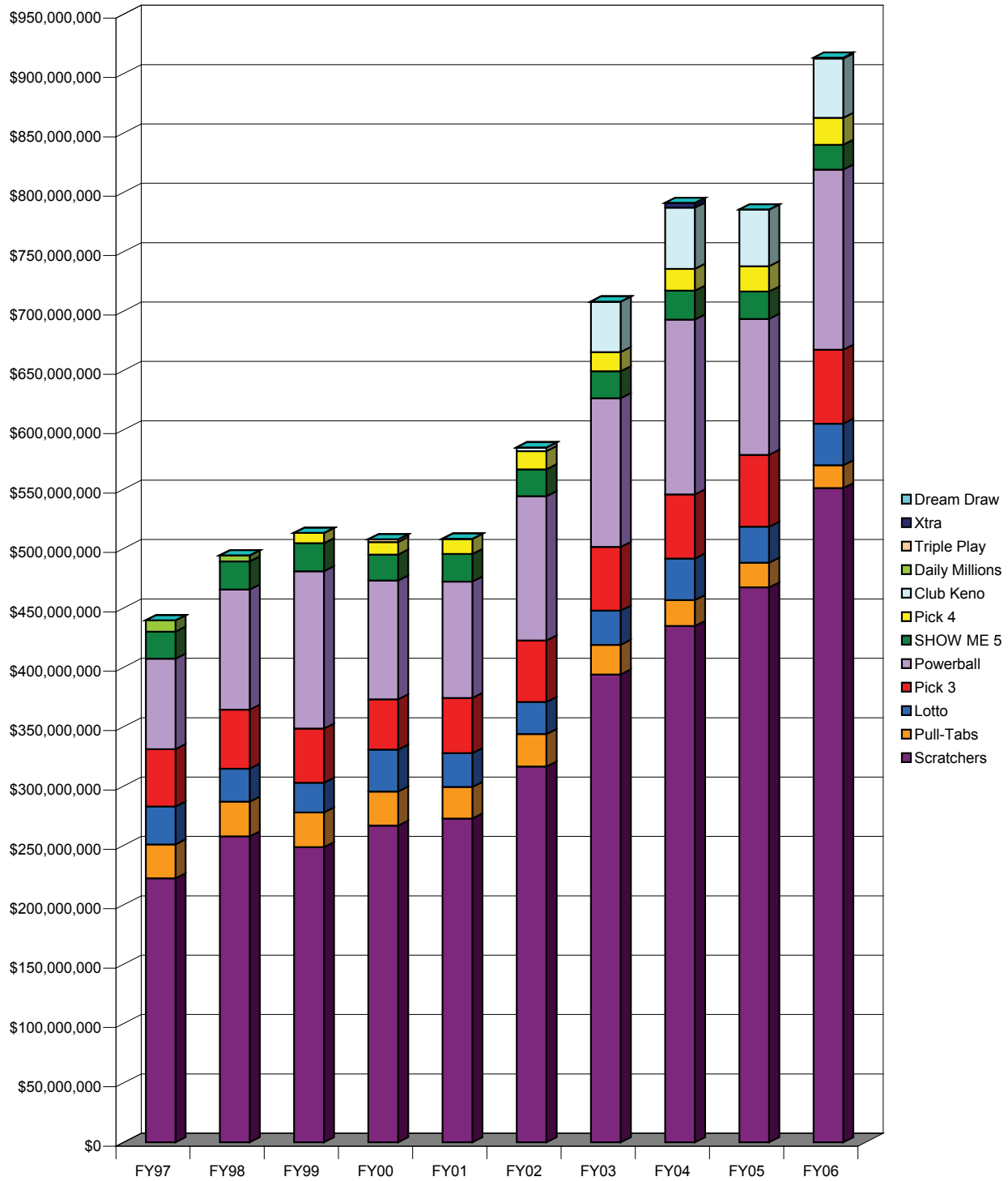
Unless otherwise noted, the source for the data used to prepare the following schedules and charts is the Division of Financial Operations of the Missouri State Lottery Commission.

Missouri State Lottery Commission
Schedule of Changes in Net Assets and Schedule of Net Assets
Last Ten Fiscal Years
(Unaudited)

	1997	1998	1999	2000
Operating revenues				
Scratchers ticket sales	\$222,342,990	\$257,643,316	\$248,510,434	\$266,708,105
On-line ticket sales				
Lotto	31,892,109	27,875,180	24,981,515	35,292,475
Pick 3	48,362,345	49,711,706	45,622,562	42,368,038
Powerball	76,145,527	101,082,612	132,599,484	99,966,448
SHOW ME 5	22,783,598	23,666,577	23,537,442	21,923,806
Pick 4	0	0	8,759,037	10,549,806
Club Keno	0	0	0	0
Dream Draw	0	0	0	0
Xtra	0	0	0	0
Triple Play	0	0	0	2,336,614
Daily Millions	9,573,752	5,180,039	0	0
Total on-line ticket sales	188,757,331	207,516,114	235,500,040	212,437,187
Pull-Tab ticket sales	28,491,979	29,139,331	29,240,982	28,700,294
Total sales	439,592,300	494,298,761	513,251,456	507,845,586
Other operating revenues	131,844	85,624	109,142	87,776
Total operating revenues	439,724,144	494,384,385	513,360,598	507,933,362
Operating Expenses				
Direct costs				
Prize expense	241,863,324	273,168,317	282,306,452	280,506,198
Retailer compensation	27,750,512	31,110,621	32,278,385	32,388,529
Ticket costs	10,805,208	12,457,684	13,195,977	12,580,313
Total direct costs	280,419,044	316,736,622	327,780,814	325,475,040
Administrative expenses	27,846,857	29,167,815	30,024,072	30,119,645
Total operating expenses	308,265,901	345,904,437	357,804,886	355,594,685
Operating Income	131,458,243	148,479,948	155,555,712	152,338,677
Nonoperating Revenues (Expenses)				
Interest income	1,045,038	945,708	1,518,063	1,563,766
Unclaimed prizes*	0	0	0	0
Net increase (decrease) in the fair value of investments	7,334,821	13,828,307	3,080,058	5,868,431
Amortization of grand prize winner liability	(6,541,166)	(7,169,429)	(7,355,232)	(7,388,931)
Gain (loss) on disposal of assets	160,646	99,780	381,513	115,884
Liquidated damages	0	0	1,107,200	0
Transfers to the state	(132,663,927)	(149,525,436)	(158,562,488)	(154,018,327)
Total nonoperating expenses	(130,664,588)	(141,821,070)	(159,830,886)	(153,859,177)
Changes In Net Assets	\$793,655	\$6,658,878	(\$4,275,174)	(\$1,520,500)
Total Net Assets, beginning of year	4,295,088	5,088,743	11,747,621	7,472,447
Total Net Assets, end of year	\$5,088,743	\$11,747,621	\$7,472,447	\$5,951,947
* - effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers all unclaimed prizes to the Lottery Proceeds Fund				
Net Assets				
Invested in capital assets	\$8,657,852	\$6,442,016	\$8,657,852	\$8,759,614
Unrestricted	(8,657,852)	(6,442,016)	(8,657,852)	(8,759,614)
Restricted	5,088,743	11,747,621	7,472,447	5,951,947
Total net assets	\$5,088,743	\$11,747,621	\$7,472,447	\$5,951,947

2001	2002	2003	2004	2005	2006
<u>\$272,658,386</u>	<u>\$316,397,488</u>	<u>\$393,981,254</u>	<u>\$434,791,673</u>	<u>\$467,326,093</u>	<u>\$550,961,109</u>
28,459,170	27,030,491	28,736,839	35,015,934	30,311,403	35,062,426
46,539,183	51,785,842	53,569,248	53,946,082	60,558,754	62,274,077
97,920,328	121,474,897	125,324,451	147,232,847	114,485,380	151,772,839
23,280,662	22,714,933	22,665,639	24,337,775	23,056,447	20,861,442
12,864,736	15,292,249	16,157,968	18,436,614	21,338,535	22,605,473
0	3,124,386	42,570,878	51,531,568	47,616,083	49,948,394
0	0	0	0	0	877,591
0	0	0	4,014,945	173,848	0
0	0	0	0	0	0
0	0	0	0	0	0
<u>209,064,079</u>	<u>241,422,798</u>	<u>289,025,023</u>	<u>334,515,765</u>	<u>297,540,450</u>	<u>343,402,242</u>
<u>26,578,639</u>	<u>27,368,968</u>	<u>25,041,235</u>	<u>21,846,920</u>	<u>20,731,089</u>	<u>19,154,900</u>
508,301,104	585,189,254	708,047,512	791,154,358	785,597,632	913,518,251
<u>1,757,320</u>	<u>615,041</u>	<u>539,609</u>	<u>638,392</u>	<u>340,957</u>	<u>167,767</u>
<u>510,058,424</u>	<u>585,804,295</u>	<u>708,587,121</u>	<u>791,792,750</u>	<u>785,938,589</u>	<u>913,686,018</u>
293,218,540	353,075,456	434,559,460	484,827,462	487,925,882	572,767,960
32,429,771	37,100,715	44,453,462	49,316,766	48,798,722	56,543,150
<u>12,531,590</u>	<u>13,289,487</u>	<u>16,712,029</u>	<u>18,341,746</u>	<u>17,543,004</u>	<u>16,282,739</u>
338,179,901	403,465,658	495,724,951	552,485,974	554,267,608	645,593,849
<u>31,503,644</u>	<u>29,832,679</u>	<u>26,561,873</u>	<u>22,619,483</u>	<u>21,430,609</u>	<u>20,290,872</u>
<u>369,683,545</u>	<u>433,298,337</u>	<u>522,286,824</u>	<u>575,105,457</u>	<u>575,698,217</u>	<u>665,884,721</u>
<u>140,374,879</u>	<u>152,505,958</u>	<u>186,300,297</u>	<u>216,687,293</u>	<u>210,240,372</u>	<u>247,801,297</u>
1,540,929	756,413	382,523	470,448	571,049	1,459,617
12,201,033	6,669,140	16,720,584	12,283,414	7,811,413	11,392,679
9,747,840	7,678,525	11,259,456	0	6,300,009	0
(7,462,567)	(5,617,431)	(5,473,304)	(5,255,750)	(5,259,106)	(4,956,265)
(202,110)	106,956	62,857	(13,972)	19,876	15,142
0	0	0	0	0	0
<u>(153,914,731)</u>	<u>(160,038,467)</u>	<u>(203,466,261)</u>	<u>(229,427,183)</u>	<u>(218,642,710)</u>	<u>(260,668,734)</u>
<u>(138,089,606)</u>	<u>(150,444,864)</u>	<u>(180,514,145)</u>	<u>(223,489,266)</u>	<u>(209,199,469)</u>	<u>(254,182,207)</u>
\$2,285,273	\$2,061,094	\$5,786,152	(\$6,801,973)	\$1,040,903	(\$6,380,910)
<u>5,951,947</u>	<u>8,237,220</u>	<u>10,298,314</u>	<u>16,084,466</u>	<u>9,282,493</u>	<u>10,323,396</u>
<u>\$8,237,220</u>	<u>\$10,298,314</u>	<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>
<hr/>					
\$7,141,537	\$5,912,800	\$4,986,696	\$4,151,722	\$3,295,311	\$3,068,609
(7,141,537)	(5,912,800)	(4,986,696)	(4,151,722)	(3,295,311)	(3,068,609)
<u>8,237,220</u>	<u>10,298,314</u>	<u>16,084,466</u>	<u>9,282,493</u>	<u>10,323,396</u>	<u>3,942,486</u>
<u>\$8,237,220</u>	<u>\$10,298,314</u>	<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>

**Missouri State Lottery Commission
Sales By Product
Last Ten Fiscal Years
(Unaudited)**



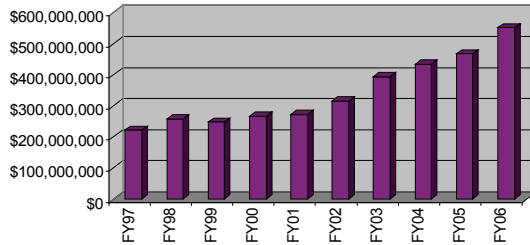
Missouri State Lottery Commission

Sales By Fiscal Year By Product Line

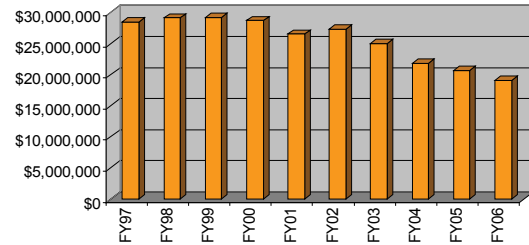
Last Ten Fiscal Years

(Unaudited)

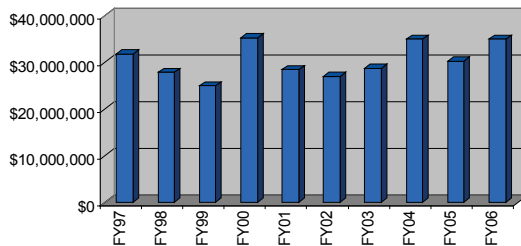
Scratchers



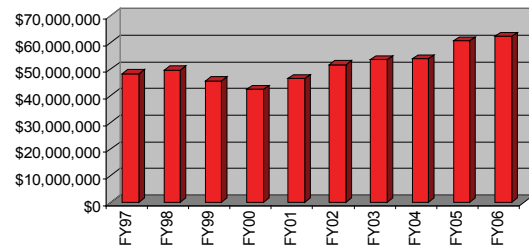
Pull-Tabs



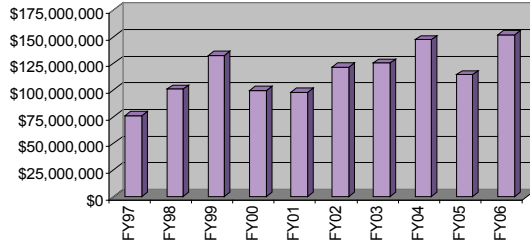
Lotto



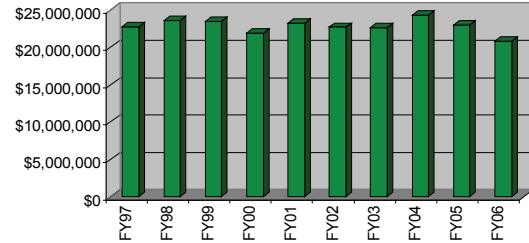
Pick 3



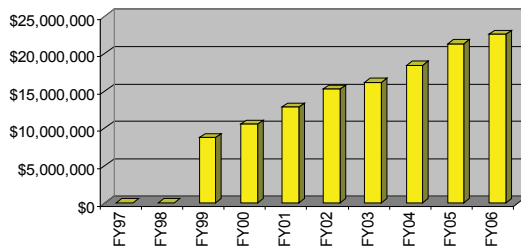
Powerball



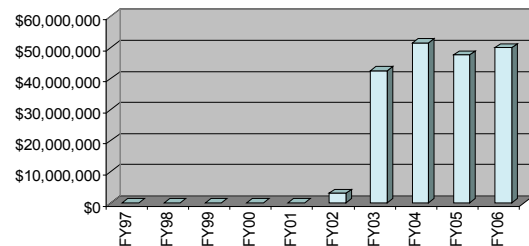
SHOW ME 5



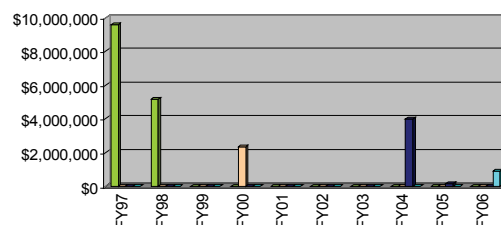
Pick 4



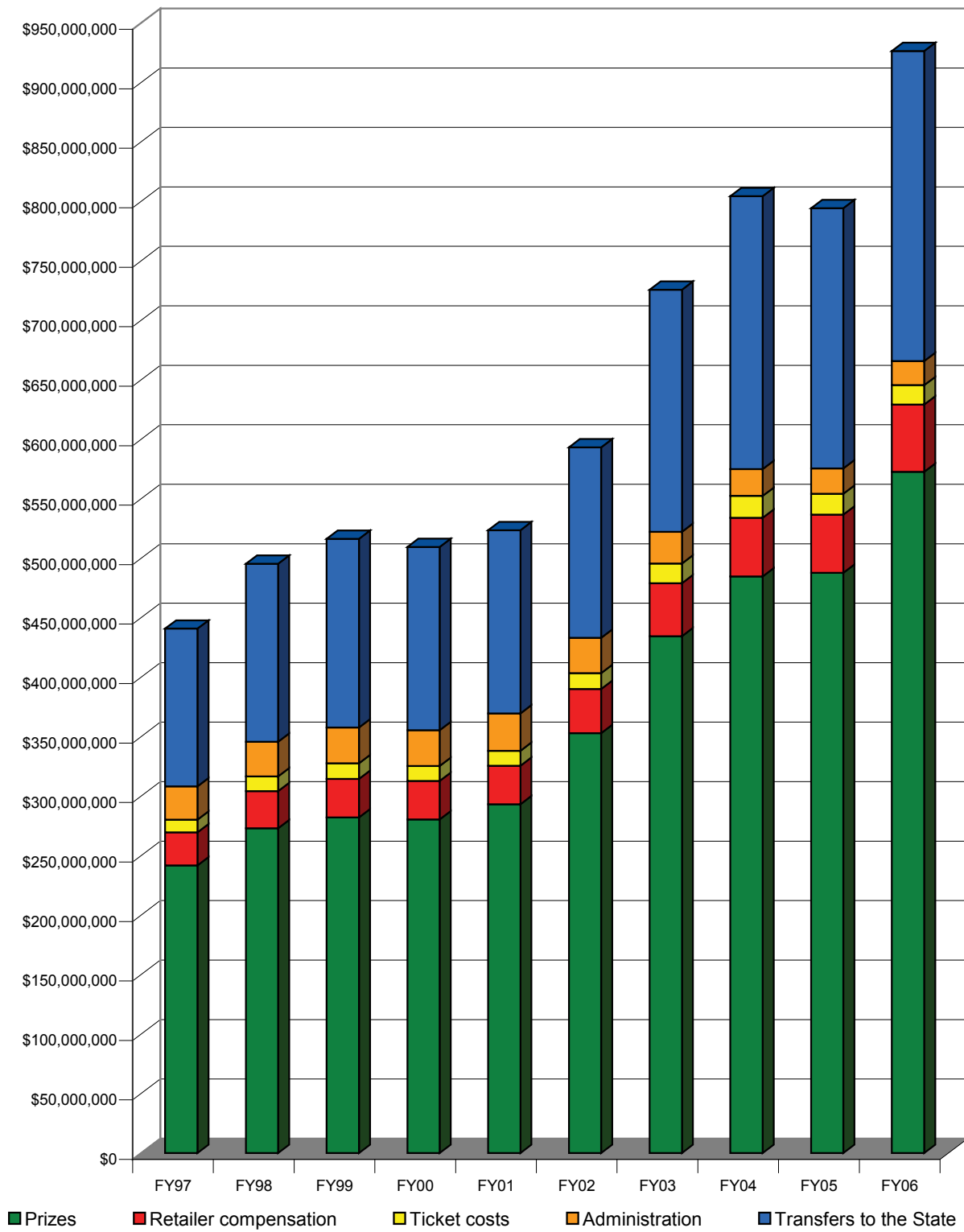
Club Keno



■ Daily Millions
 ■ Triple Play
 ■ Xtra
 ■ Dream Draw

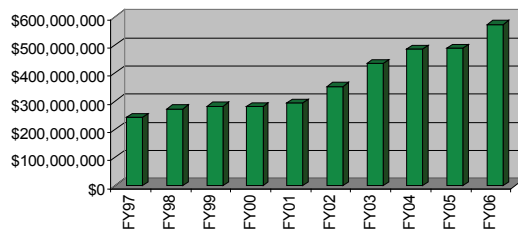


**Missouri State Lottery Commission
Expenses And Transfers
Last Ten Fiscal Years
(Unaudited)**

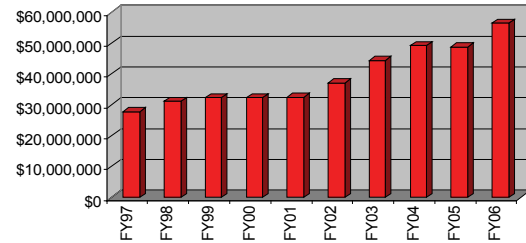


Missouri State Lottery Commission Expenses And Transfers Last Ten Fiscal Years (Unaudited)

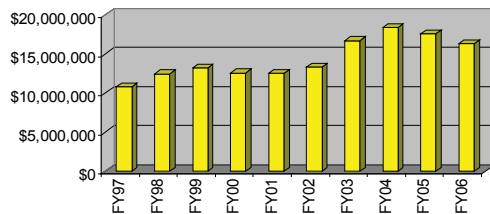
Prizes



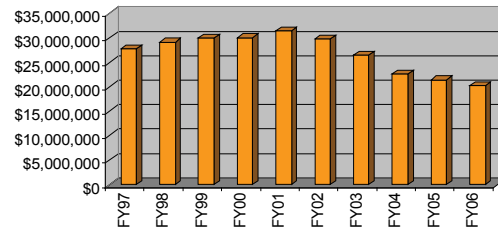
Retailer Compensation



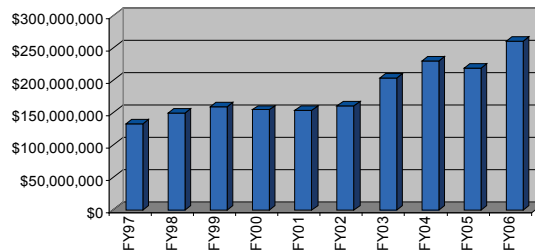
Ticket Costs



Administration



Transfers to the State



Missouri State Lottery Commission
Schedule Of Scratchers Ticket Game Launches And Sales By Price Point
Last Ten Fiscal Years
(Unaudited)

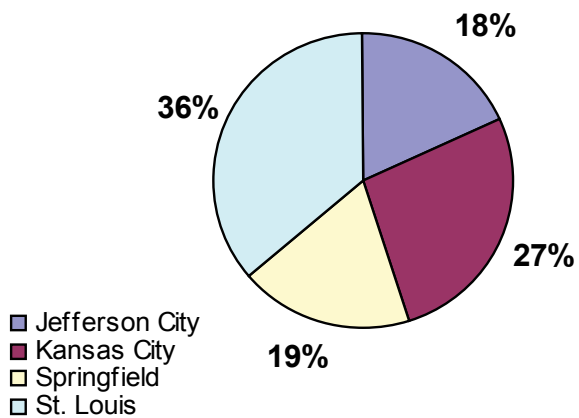
Price Point	1997	1998	1999	2000	2001
Number of Launches					
\$1	25	26	28	28	30
\$2	8	11	11	13	14
\$3	-	3	2	3	2
\$5	-	-	-	1	5
\$10	-	-	-	-	-
Total	33	40	41	45	51
Sales					
\$1	\$147,243,100	\$150,347,228	\$149,768,576	\$160,458,169	\$152,793,807
\$2	75,099,890	76,190,998	77,225,485	77,613,717	73,564,980
\$3	-	31,105,090	21,516,373	23,667,980	18,676,691
\$5	-	-	-	4,968,239	27,622,908
\$10	-	-	-	-	-
	\$222,342,990	\$257,643,316	\$248,510,434	\$266,708,105	\$272,658,386

2002	2003	2004	2005	2006	% of Total 2006
23	15	15	14	14	28.00%
20	20	24	22	22	44.00%
3	2	2	2	1	2.00%
6	7	6	9	10	20.00%
-	5	5	7	3	6.00%
52	49	52	54	50	100.00%
\$163,461,975	\$143,870,364	\$132,474,169	\$120,824,709	\$109,864,276	19.94%
97,976,908	117,812,464	150,207,177	162,535,252	169,626,074	30.79%
19,576,955	20,099,812	24,940,942	27,283,622	28,130,183	5.11%
35,411,650	50,094,329	57,003,246	73,989,819	108,561,454	19.70%
-	62,104,285	70,166,139	82,692,691	134,779,122	24.46%
\$316,427,488	\$393,981,254	\$434,791,673	\$467,326,093	\$550,961,109	100.00%

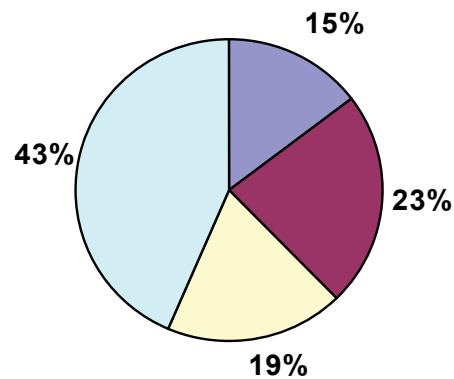
**Missouri State Lottery Commission
Schedule Of Lottery Retailers And Sales By Region
Fiscal Year Ending June 30, 2006
(Unaudited)**

Region	Number of Retailers	% of Total Retailers	Total Sales	% of Total Sales
Jefferson City	909	18.21%	133,903,265	14.66%
Kansas City	1,313	26.30%	211,175,672	23.12%
Springfield	922	18.47%	170,395,799	18.65%
St. Louis	1,789	35.83%	398,043,515	43.57%
Total Statewide	4,993	100.00%	913,518,251	100.00%

% Retailers by Region



% Total Sales by Region



Source: Missouri State Lottery Commission Research Section

Note: Information is accumulated and retained in this format only for Fiscal Year 2006. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

**Missouri State Lottery Commission
Schedule Of Demographic And Economic Statistics
Calendar Years 1997 To 2006
(Unaudited)**

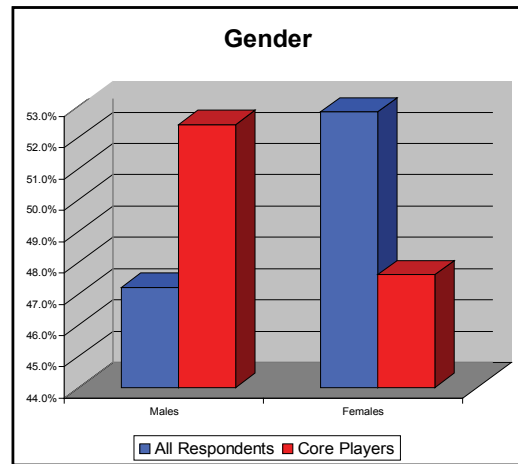
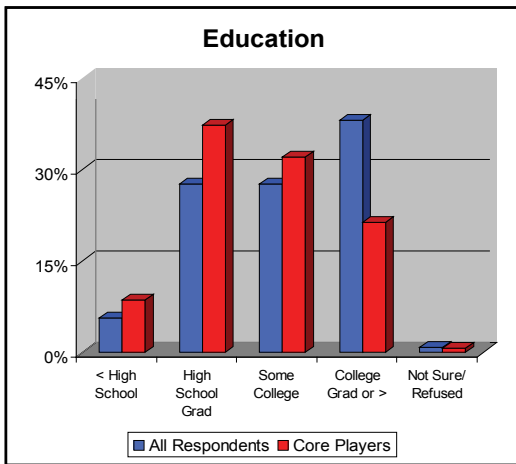
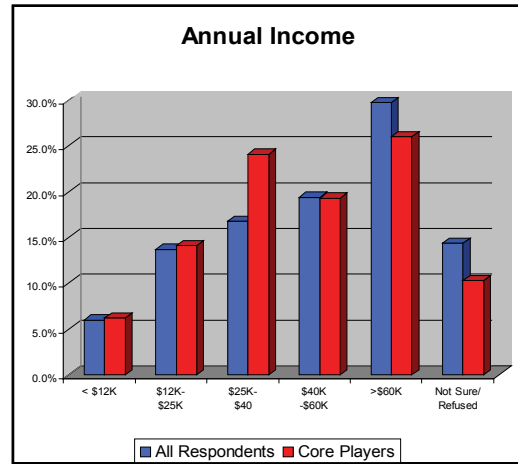
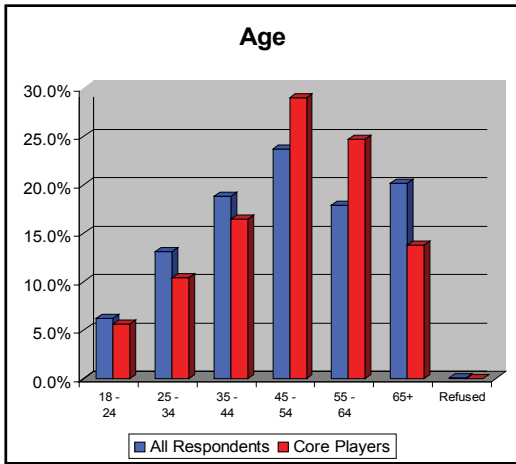
Calendar Year	Statewide Population	Statewide Personal Income (millions of dollars)	Statewide Personal Income per Capita	State Unemployment Rate
1997	5,481,193	\$128,724	\$23,485	4.7%
1998	5,521,765	136,902	24,793	4.3%
1999	5,561,948	142,005	25,532	3.1%
2000	5,595,211	152,435	27,244	2.6%
2001	5,643,326	156,782	27,782	4.2%
2002	5,681,045	160,439	28,241	5.0%
2003	5,718,717	165,663	28,969	5.4%
2004	5,759,532	171,905	29,847	5.4%
2005	5,800,310	180,396	31,101	5.9%
2006	n/a	n/a	n/a	4.7%

Sources:

Population from U.S. Census Bureau;
Personal income from U.S. Bureau of Economic Analysis
Unemployment rate from U.S. Department of Labor, Bureau of Statistics

n/a - not yet available

Missouri State Lottery Commission Demographic Group Participation Fiscal Year 2006



Source: Missouri Lottery Track and Trend Report FY2006

Missouri State Lottery Commission
Schedule Of Lottery Full-time Equivalent Employees
Last Ten Fiscal Years
(Unaudited)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Full-time	170.0	174.0	177.0	177.0	177.0	177.0	177.0	177.0	175.0	175.0
Part-time	2.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total	<u>172.0</u>	<u>175.5</u>	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>176.5</u>	<u>176.5</u>
Sales										
Jefferson City	10.0	10.0	11.0	11.0	12.0	12.0	12.0	12.0	12.0	12.0
Springfield	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Kansas City	16.0	16.0	16.0	16.0	15.0	15.0	15.0	15.0	15.0	15.0
St. Louis	19.0	19.0	19.0	19.0	19.0	19.0	20.0	20.0	20.0	20.0
Inside Sales	12.0	12.0	12.0	12.0	12.0	11.0	11.0	11.0	11.0	11.0
Vault	12.0	12.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Marketing and administration	<u>95.0</u>	<u>98.5</u>	<u>101.5</u>	<u>101.5</u>	<u>101.5</u>	<u>102.5</u>	<u>101.5</u>	<u>101.5</u>	<u>99.5</u>	<u>99.5</u>
Total	<u>172.0</u>	<u>175.5</u>	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>176.5</u>	<u>176.5</u>

Source: Missouri State Lottery Commission Budget Office

Missouri State Lottery Commission
Operating Indicators
Last Ten Fiscal Years
(Unaudited)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retailers-										
Statewide	4,904	4,996	5,060	5,050	4,968	5,036	5,021	5,003	5,022	4,993
Per Capita Sales	\$81	\$91	\$93	\$91	\$91	\$104	\$125	\$138	\$136	\$157

Source: Missouri State Lottery Commission Research and Licensing Sections

U.S. lotteries' fiscal 2005 sales by game*

(in \$millions)				Online Games								Total Sales	PC Sales	VLT (net)
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Bloc Lotto	Hot Lotto	Keno	Other			
Arizona	5.9	219.65		7.18		54.82	9.43	106.48				397.56	\$67	
California	36.1	1,736.79		136.16	0.00	1,098.89	160.76	11.04		174.30	15.68	3,333.62	\$92	
Colorado	4.7	282.74				38.27	15.05	80.91				416.97	\$89	
Connecticut	3.5	592.27		106.44	78.27	35.61	40.78	79.56				932.93	\$266	
Delaware	0.8	28.70		27.56	16.83	4.29	11.51	25.43	0.00		-0.26	114.06	\$135	575.23
D.C.	0.6	36.11		68.60	74.14		8.47	31.54	2.20	11.87	2.01	234.94	\$427	0.00
Florida	17.8	1,844.62		345.60	206.98	689.82	252.47				131.25	3,470.73	\$195	
Georgia	9.1	1,653.13		551.50	174.16	67.44	75.85	170.44		41.83	0.00	2,734.35	\$301	
Idaho	1.4	77.75	1.33	1.19		3.20		30.04				113.50	\$79	
Illinois	12.8	878.83		307.24	168.35	131.54	131.78	192.60			4.01	1,814.35	\$142	
Indiana	6.3	470.41	19.32	29.56	29.98	60.86	8.00	120.32		0.00	1.16	739.63	\$118	0.00
Iowa	3.0	103.26	23.62	6.20	2.04		4.43	54.24	10.44		6.43	210.67	\$71	
Kansas	2.7	93.28	4.39	5.17		2.17	19.31	44.53		37.11	0.77	206.72	\$75	
Kentucky	4.2	385.13	24.22	130.35	35.66	17.55	16.81	90.46			7.10	707.26	\$169	
Louisiana	4.5	104.10		47.79	25.57	32.83	5.36	91.36				307.01	\$68	
Maine	1.3	151.88		5.84	4.43		2.53	44.62				209.30	\$158	
Maryland	5.6	390.97		296.10	225.45	34.10	21.92	99.74		416.51	0.94	1,485.73	\$265	
Massachusetts	6.4	3,135.42	1.81		352.45	51.29	85.68	97.07		742.01		4,465.72	\$698	
Michigan	10.1	662.53	39.07	401.07	308.85	55.64	49.89	203.90		345.86	2.66	2,069.47	\$204	0.00
Minnesota	5.1	253.40		13.10			23.90	92.50	16.30		8.80	408.00	\$79	
Missouri	5.8	467.33	20.73	60.56	21.34	30.31	23.06	114.49		47.62	0.17	785.60	\$135	
Montana	0.9	10.54		0.00	0.00	2.30	3.83	13.89	2.82		0.44	33.81	\$36	
Nebraska	1.8	56.51		0.53		2.53	10.57	30.51				100.66	\$57	
N. Hampshire	1.3	161.36		10.65		0.00	3.14	49.35	3.48			227.98	\$174	
New Jersey	8.7	1066.13		456.58	265.00	109.98	123.25	253.41			0.00	2,274.36	\$261	
New Mexico	1.9	90.84		2.06	0.89		9.18	36.26				139.24	\$72	
New York	19.3	3,005.59		790.47	624.20	305.86	348.18	446.20		507.36	10.91	6,038.77	\$314	231.72
N. Dakota	0.6					2.02		13.21	3.90			19.13	\$30	
Ohio	11.5	1,217.20		387.66	170.09	113.06	74.82	176.39			19.91	2,159.13	\$188	
Oregon	3.6	133.24	2.19		1.39	48.28		35.00		122.20	17.87	360.17	\$99	579.65
Pennsylvania	12.4	1301.81		425.36	271.55	151.01	201.26	293.86				2,644.86	\$213	
Rhode Island	1.1	75.60		28.58		0.00	3.74	41.97		90.55	1.44	241.88	\$225	399.19
S. Carolina	4.3	578.84		118.85	51.32		29.00	178.94				956.95	\$225	
S. Dakota	0.8	16.15	0.00	0.00	0.00	1.81	1.80	11.15	1.59			32.50	\$42	216.76
Tennessee	6.0	538.35		69.19	6.09	23.40		146.67				783.70	\$131	
Texas	22.9	2,705.41		284.95		306.66	102.66	217.71			45.07	3,662.46	\$160	
Vermont	0.6	71.21		1.55	1.27		1.18	17.39			0.00	92.59	\$149	
Virginia	7.6	679.56		253.22	169.18	66.69	28.11	137.18				1,333.95	\$176	
Washington	6.3	294.67		17.24	0.00	58.61	21.63	50.24		6.44	9.30	458.13	\$73	
W. Virginia	1.8	111.86		9.29	4.42		6.11	49.21	3.34	9.96		194.19	\$107	1,199.35
Wisconsin	5.5	263.04	6.87	24.50	10.38	18.09	49.71	79.30			-0.01	451.87	\$82	
Total	266.6	25,946.18	143.55	5,427.89	3,300.30	3,618.92	1,985.15	4,059.11	44.07	2,553.62	285.65	47,364.4	\$178	3,201.89
% of total		54.8%	0.3%	11.5%	7.0%	7.6%	4.2%	8.6%	0.1%	5.4%	0.6%	100.0%		

* Fiscal year ends June 30 for all U.S. states, except New York (March 31), Texas (August 31), D.C. and Michigan (Sept. 30)

Source: LaFleur's 2006 World Lottery Almanac

Fiscal 2005 U.S. Lottery Sales, Prizes & Gov't Transfers Measured by Gross State Product

Lottery	Pop. ¹ (Mil)	2004 Gross State Product ²								Ticket Sales as % of GSP	Gov't Transfers as % of GSP	Prizes as % of Ticket Sales	Gov't Transfers as % of Ticket Sale
			Ticket Sales	VLT (net)	Prizes	Expense	Gov't Transfers	PC Sales	PC Gov't				
Arizona	5.9	199,953	397.56		200.30	54.69	116.39	\$67	\$20	0.199%	0.058%	50.4%	29.3%
California	36.1	1,550,753	3,333.62		1,795.25	166.99	1,148.78	\$92	\$32	0.215%	0.074%	53.9%	34.5%
Colorado	4.7	199,969	416.97		249.50	32.43	103.74	\$89	\$22	0.209%	0.052%	59.8%	24.9%
Connecticut	3.5	185,802	932.93		573.00	40.57	268.51	\$266	\$77	0.502%	0.145%	61.4%	28.8%
Delaware ^{3,4}	0.8	54,274	114.06	575.23	59.83	13.31	297.92	\$135	\$353	0.210%	0.549%	52.5%	
D.C.	0.6	76,685	234.93	0.00	120.53	29.10	71.45	\$427	\$130	0.306%	0.093%	51.3%	30.4%
Florida	17.8	599,068	3,470.73		2,044.25	142.61	1,103.63	\$195	\$62	0.579%	0.184%	58.9%	31.8%
Georgia	9.1	343,125	2,734.35		1,633.28	111.89	802.24	\$301	\$88	0.797%	0.234%	59.7%	29.3%
Idaho	1.4	43,571	113.50		69.59	13.12	26.00	\$79	\$18	0.260%	0.060%	61.3%	22.9%
Illinois	12.8	521,900	1,814.35		1,042.89	99.79	619.50	\$142	\$49	0.348%	0.119%	57.5%	34.1%
Indiana	6.3	227,569	739.63	0.00	455.33	47.14	188.93	\$118	\$30	0.325%	0.083%	61.6%	25.5%
Iowa	3.0	111,114	210.67		113.46	28.57	51.09	\$71	\$17	0.190%	0.046%	53.9%	24.3%
Kansas	2.7	98,946	206.72		112.56	20.86	65.41	\$75	\$24	0.209%	0.066%	54.4%	31.6%
Kentucky	4.2	136,446	707.26		457.69	47.40	158.19	\$169	\$38	0.518%	0.116%	64.7%	22.4%
Louisiana	4.5	152,944	307.01		153.26	29.44	110.39	\$68	\$24	0.201%	0.072%	49.9%	36.0%
Maine	1.3	43,336	209.30		127.02	19.47	50.33	\$158	\$38	0.483%	0.116%	60.7%	24.0%
Maryland	5.6	227,991	1,485.73		856.23	51.36	477.10	\$265	\$85	0.652%	0.209%	57.6%	32.1%
Massachusetts	6.4	317,798	4,465.72		3,211.54	81.50	936.13	\$698	\$146	1.405%	0.295%	71.9%	21.0%
Michigan	10.1	372,169	2,069.47	0.00	1,162.01	100.28	667.58	\$204	\$66	0.556%	0.179%	56.1%	32.3%
Minnesota	5.1	223,822	408.00		241.30	36.31	106.17	\$79	\$21	0.182%	0.047%	59.1%	26.0%
Missouri	5.8	203,294	785.60		487.93	38.97	218.64	\$135	\$38	0.386%	0.108%	62.1%	27.8%
Montana	0.9	27,482	33.81		17.80	7.91	6.22	\$36	\$7	0.123%	0.023%	52.7%	18.4%
Nebraska	1.8	68,183	100.66		58.35	12.34	26.37	\$57	\$15	0.148%	0.039%	58.0%	26.2%
N. Hampshire	1.3	51,871	227.98		132.69	15.09	69.35	\$174	\$53	0.440%	0.134%	58.2%	30.4%
New Jersey	8.7	416,053	2,274.36		1,296.81	80.68	812.05	\$261	\$93	0.547%	0.195%	57.0%	35.7%
New Mexico	1.9	61,012	139.24		76.17	17.40	32.23	\$72	\$17	0.228%	0.053%	54.7%	23.1%
New York	19.3	896,739	6,038.77	231.72	3,523.53	254.30	2,062.70	\$314	\$107	0.673%	0.230%	58.3%	34.2%
N. Dakota	0.6	22,687	19.13		9.09	2.78	6.10	\$30	\$10	0.084%	0.027%	47.5%	31.9%
Ohio	11.5	419,866	2,159.13		1,280.79	97.69	645.14	\$188	\$56	0.514%	0.154%	59.3%	29.9%
Oregon ^{3,4}	3.6	128,103	360.17	579.65	245.13	26.69	401.58	\$99	\$110	0.281%	0.313%	68.1%	
Pennsylvania	12.4	468,089	2,644.86		1,529.44	143.63	851.80	\$213	\$69	0.565%	0.182%	57.8%	32.2%
R. Island ^{3,4}	1.1	41,679	241.88	399.19	143.56	8.17	307.55	\$225	\$286	0.580%	0.738%	59.4%	
S. Carolina	4.3	136,125	956.95		573.60	41.88	279.74	\$225	\$66	0.703%	0.206%	59.9%	29.2%
S. Dakota ^{3,4}	0.8	29,386	32.50	216.76	18.35	5.75	119.32	\$42	\$154	0.111%	0.406%	56.5%	
Tennessee	6.0	217,626	783.70		444.24	49.78	234.30	\$131	\$39	0.360%	0.108%	56.7%	29.9%
Texas	22.9	884,136	3,662.46		2,228.00	178.78	1,070.30	\$160	\$47	0.414%	0.121%	60.8%	29.2%
Vermont	0.6	21,921	92.59		57.90	8.41	20.47	\$149	\$33	0.422%	0.093%	62.5%	22.1%
Virginia	7.6	329,332	1,333.95		774.56	66.01	423.50	\$176	\$56	0.405%	0.129%	58.1%	31.7%
Washington	6.3	261,549	458.13		280.86	33.89	115.63	\$73	\$18	0.175%	0.044%	61.3%	25.2%
W. Virginia ^{3,4}	1.8	49,454	194.22	1,199.35	117.13	20.27	563.32	\$107	\$310	0.393%	1.139%	60.3%	
Wisconsin	5.5	211,616	451.87		262.18	28.54	143.40	\$82	\$26	0.214%	0.068%	58.0%	31.7%
Total	266.6	10,633,438	47,364.4	3,201.9	28,236.9	2,305.8	15,779.2	\$178	\$59	0.445%	0.148%	59.6%	

* Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30). ¹ Source: U.S. Census Bureau

² Source: U.S. Bureau of Economic Analysis; ³ This data represents only revenue from traditional lottery games; ⁴ Prizes do not include VLT prizes paid

Source: LaFleur's 2006 World Lottery Almanac

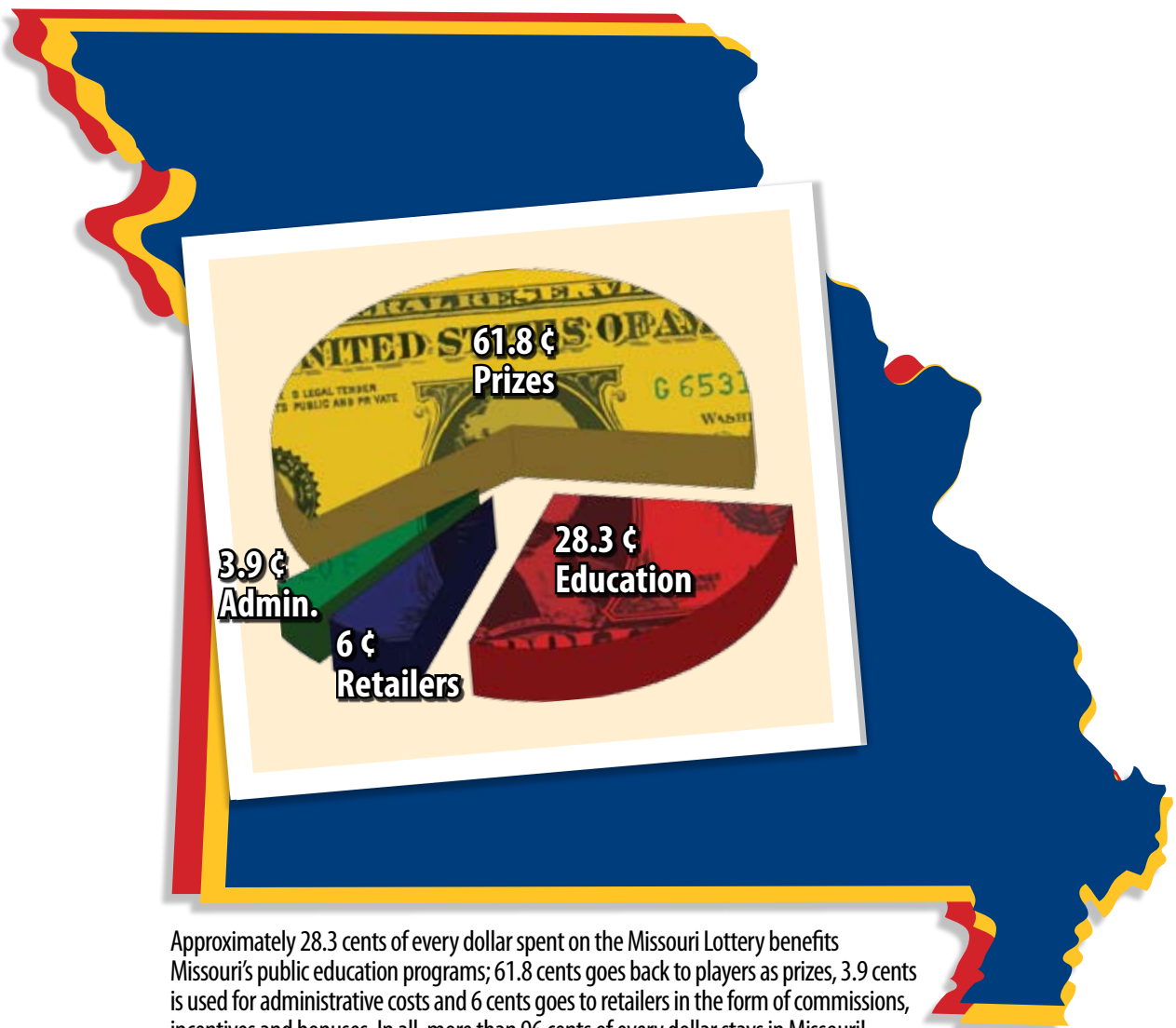
**Missouri State Lottery Commission
Schedule Of Capital Asset Information
Last Ten Fiscal Years**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Owned buildings - square feet										
Headquarters										
1823 Southridge Drive										
Jefferson City, Mo. 65109	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696
Distribution Center										
911 Bubba Lane										
Jefferson City, Mo. 65109	-	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017
Fleet of owned vehicles										
Passenger vans - sales staff	53	53	54	54	54	54	55	49	49	49
Delivery vans	4	4	4	6	6	5	4	3	3	3
Passenger vans - vehicle pool	23	25	29	29	10	8	10	8	3	12
Passenger cars - vehicle pool	4	5	8	8	12	11	9	9	8	8
Trucks	4	4	4	4	4	4	4	4	3	3
Event trailers	1	1	1	1	1	1	1	1	1	1
	<u>89</u>	<u>92</u>	<u>100</u>	<u>102</u>	<u>87</u>	<u>83</u>	<u>83</u>	<u>74</u>	<u>67</u>	<u>76</u>

Source: Missouri State Lottery Commission Maintenance and Vehicle Sections

Supplementary Information

Nearly 30 cents of every Lottery dollar goes to public education. Only 3.9 cents is spent on operating expenses.



Approximately 28.3 cents of every dollar spent on the Missouri Lottery benefits Missouri's public education programs; 61.8 cents goes back to players as prizes, 3.9 cents is used for administrative costs and 6 cents goes to retailers in the form of commissions, incentives and bonuses. In all, more than 96 cents of every dollar stays in Missouri!

Westowne Commercial Center
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Missouri State Lottery Commission
Jefferson City, Missouri

We have audited the accompanying basic financial statements of the business-type activity of the Missouri State Lottery Commission (the Lottery), a component unit of the State of Missouri, as of and for the years ended June 30, 2006 and 2005, and have issued our reports thereon dated September 27, 2006, and October 6, 2005, respectively. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Lottery's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Missouri State Lottery Commission and is not intended to be and should not be used by anyone other than these specified parties.

September 27, 2006



Other Offices

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